Guidelines for Selecting and Selling Funds, Stocks and Bonds

Selecting and Managing Your Investments

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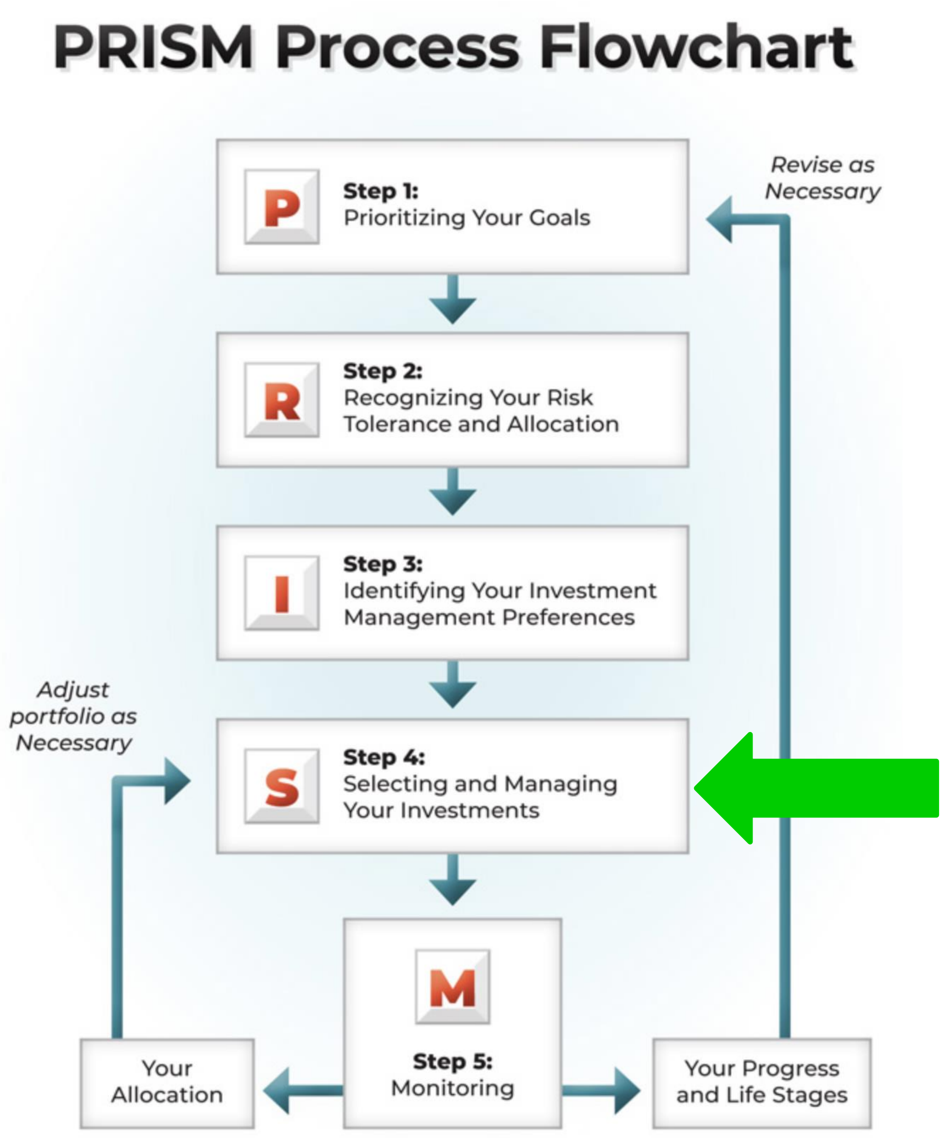
The PRISM Wealth-Building Process provides a framework for aligning your investment decisions with your goals.

The five steps of PRISM empower you to create a personalized investment plan and have the confidence to follow it.

PRISM: Wealth-Building Process



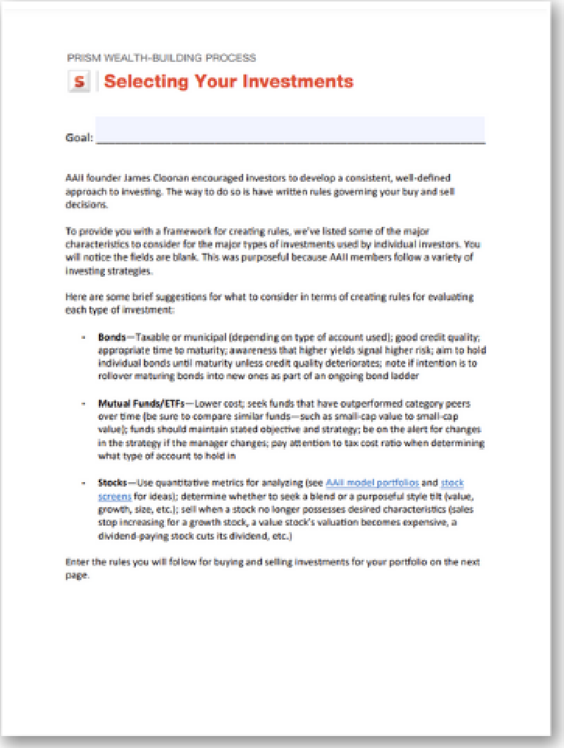
The optimal strategy is not one that maximizes return, but rather one that helps you stick to your long-term investing plan and achieve your goals.

PRISM helps you identify this strategy.

Basic Guidelines

- Start with your allocation needs from Step 2
- Use your preferences from Step 3 to narrow down the list of potential candidates
- Establish rules to select the right investment

The Selecting and Managing Your Investments Worksheet



PRISM WEALTH-BUILDING PROCESS

S | Selecting Your Investments

Goal: ____________________

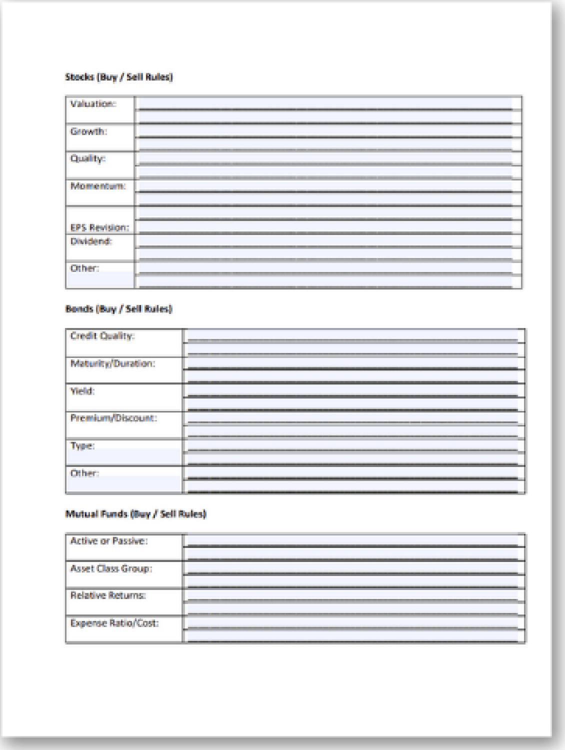
AAII founder James Cloonan encouraged investors to develop a consistent, well-defined approach to investing. The way to do so is have written rules governing your buy and sell decisions.

To provide you with a framework for creating rules, we've listed some of the major characteristics to consider for the major types of investments used by individual investors. You will notice the fields are blank. This was purposeful because AAII members follow a variety of investing strategies.

Here are some brief suggestions for what to consider in terms of creating rules for evaluating each type of investment:

- **Bonds**—Taxable or municipal (depending on type of account used); good credit quality; appropriate time to maturity; awareness that higher yields signal higher risk; aim to hold individual bonds until maturity unless credit quality deteriorates; note if intention is to rollover maturing bonds into new ones as part of an ongoing bond ladder
- **Mutual Funds/ETFs**—Lower cost; seek funds that have outperformed category peers over time (be sure to compare similar funds—such as small-cap value to small-cap value); funds should maintain stated objective and strategy; be on the alert for changes in the strategy if the manager changes; pay attention to tax cost ratio when determining what type of account to hold in
- **Stocks**—Use quantitative metrics for analyzing (see AAII model portfolios and stock screens for ideas); determine whether to seek a blend or a purposeful style tilt (value, growth, size, etc.); sell when a stock no longer possesses desired characteristics (sales stop increasing for a growth stock, a value stock's valuation becomes expensive, a dividend-paying stock cuts its dividend, etc.)

Enter the rules you will follow for buying and selling investments for your portfolio on the next page.



Stocks (Buy / Sell Rules)

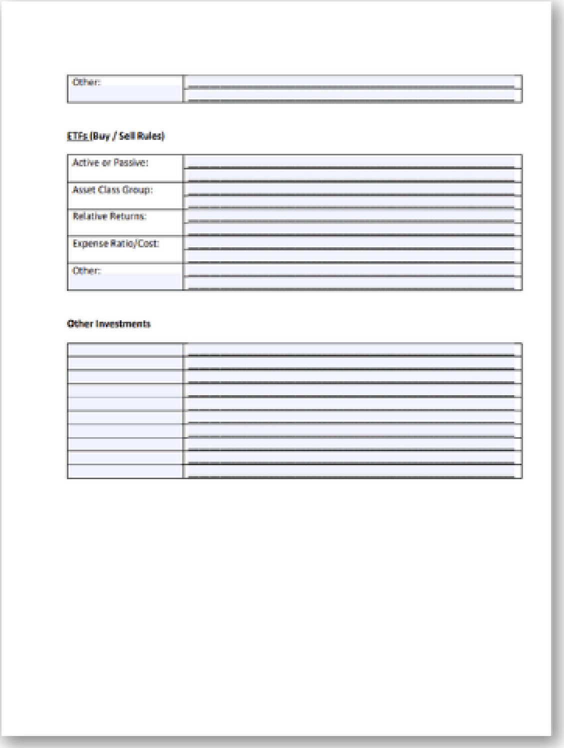
Valuation:	
Growth:	
Quality:	
Momentum:	
EPS Revision:	
Dividend:	
Other:	

Bonds (Buy / Sell Rules)

Credit Quality:	
Maturity/Duration:	
Yield:	
Premium/Discount:	
Type:	
Other:	

Mutual Funds (Buy / Sell Rules)

Active or Passive:	
Asset Class Group:	
Relative Returns:	
Expense Ratio/Cost:	



Other:	

ETFs (Buy / Sell Rules)

Active or Passive:	
Asset Class Group:	
Relative Returns:	
Expense Ratio/Cost:	
Other:	

Other Investments

[Click here to access this worksheet in the online AAII PRISM Academy Community Library]

Pause for a Poll

1. Do you have written buy and sell rules that you follow?

a) Yes

b) No

PRISM Academy: “S” Introduction

- Lesson 1 in the PRISM Academy:
  - Selecting and Managing Your Investments
    - View the full course overview for “S” - Selecting and Managing Your Investments
    - Provides members with an intro/welcome video highlighting what you will learn in this section
    - Learn how the PRISM Academy makes it easier to know how to select the right investments for your portfolio based on your personal risk tolerance, allocation and investment management preferences
  - Discussion Questions for Lesson 1:
    - What allocation model did you choose back in Step 2: “R” - Recognizing Your Risk Tolerance and Allocation?
    - Which asset class groups do you need to find investments for? (ex. large-cap stocks, intermediate-term bonds, etc.)
    - Optional: What is one aspect of selecting investments you are unsure about or need more clarity on?

View and download the “Selecting and Managing Your Investments” worksheet

Mutual Funds and ETFs

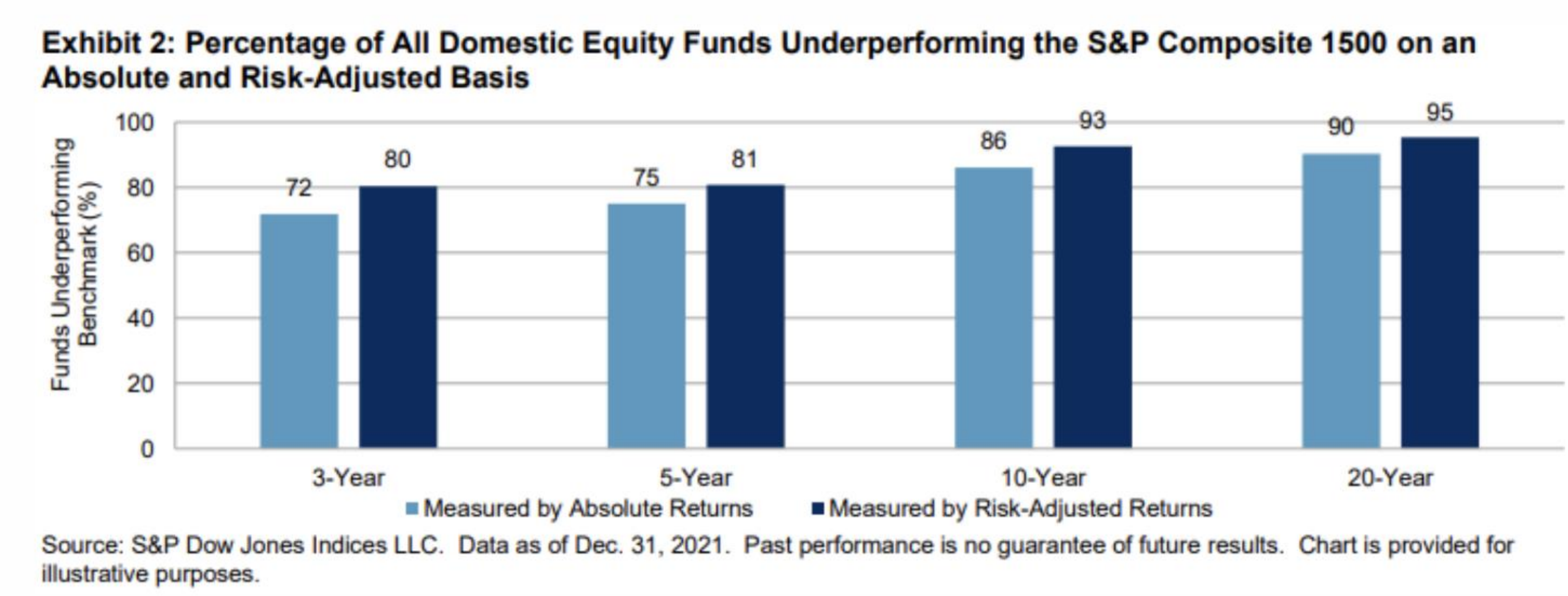
Preferences and Constraints

- Do you want active or passive management?
- Any constraints, such as limited choices in a 401(k) or 529 plan?
- Do you specifically want a mutual fund, or do you want an ETF?
- Is the tax-cost ratio a consideration?

Buying Guidelines for Funds

- Has the fund outperformed peer funds over a period of years (three, five and 10 years)?
- Lower expense ratios are better
- If seeking active management, look for a truly active fund (lower R-squared values)
- Read the objective to make sure you understand the fund’s strategy

Not Easy to Pick Which Active Manager Will Outperform



Source: "SPIVA U.S. Year-End 2021," S&P Dow Jones Indices, March 16, 2022.

Reasons to Sell a Fund

- Underperforms peer funds over a period of years
- Becomes more expensive than peers
- Objective or underlying index changes
- Read the objective to make sure you understand the fund’s strategy
- Manager change leads to a change in approach

Resources for Finding Funds

- Mutual fund and ETF guides
- Investing Ideas section of AAII
- Mutual fund and ETF evaluators
- Fund compare tools
- Mutual fund and ETF screeners (A+ Investor and Platinum)
- Find all on AAII.com

Top/Bottom Performing Funds

The best and worst performing mutual funds in key categories, updated monthly.

U.S. Equity Funds | Int'l Equity Funds | Sector Equity Funds | Fixed-Income

TOP FUNDS

FUND NAME	TICKER	3-YR ANNUAL RETURN		TOTAL RISK INDEX	
Baron Partners Retail	BPTRX	49.4%	A	2.71	F
Baron Focused Growth Retail	BFGFX	38.8%	A	2.27	F
Shelton Green Alpha	NEXTX	31.2%	A	2.00	F
Needham Aggressive Growth Retail	NEAGX	29.7%	A	1.49	F
Needham Small Cap Growth Retail	NESGX	29.4%	A	1.58	F

PRISM Academy: Mutual Funds/ETFs

- Lessons 2–4 in the PRISM Academy:
  - Lesson 2: Narrowing Down the Fund Universe
  - Lesson 3: Finding a Fund: Where to Start
  - Lesson 4: Buy and Sell Rules for Mutual Funds and ETFs
    - Lesson 2:
      - Provides members with the "Selecting and Managing Your Investments" worksheet, Asset Class Heat Map and AAII Allocation Models
    - Lesson 3:
      - Provides members with the "Finding a Fund: Where to Start" checklist
    - Lesson 4:
      - Provides members with the "Buy and Sell Rules for Mutual Funds and ETFs" checklist

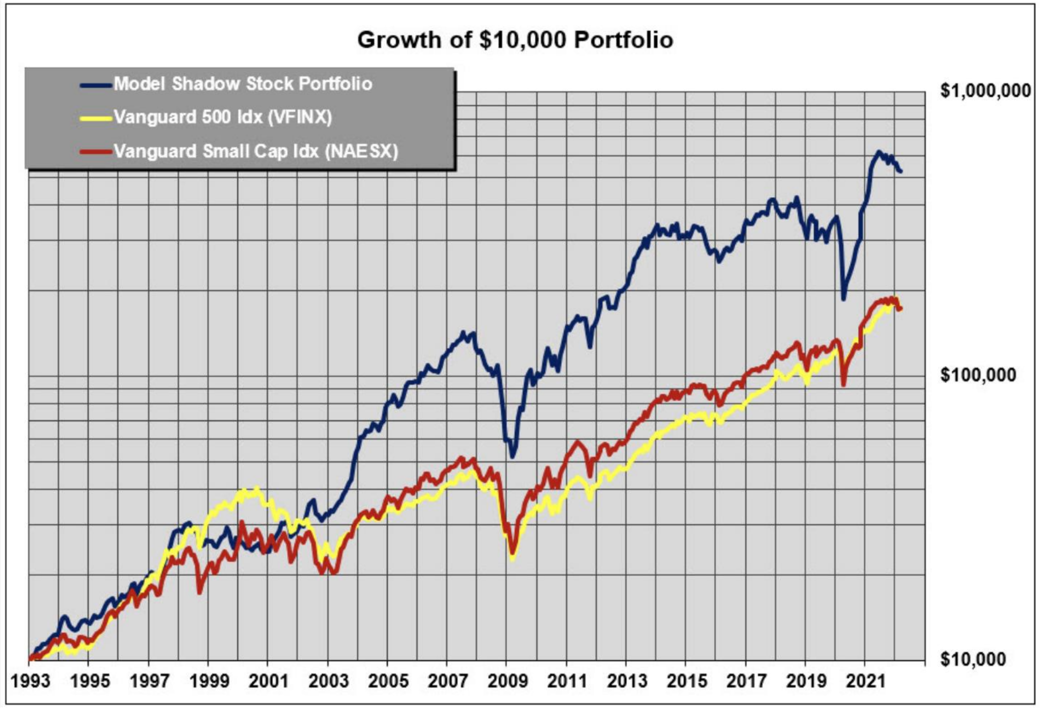
Stocks

Preferences and Constraints

- Do you have a preference for growth, value, income, momentum, etc.?
- How much time do you want to spend?
- How frequently do you want to trade?
- Are taxes a consideration?
- Any desire for sustainable investing or other values-based strategies?
- Are you willing to consider small stocks with lower levels of volume?

Buying Guidelines for Stocks

A big part of the Model Shadow Stock Portfolio's long-term success is an adherence to well-defined buy and sell rules.



Value Metrics for (Cheapest 40%)

- Price-earnings: 13.4 or lower
- Price-to-book: 1.5 or lower
- Price-to-cash flow: 10.8 or lower
- Price-to-sales: 1.9 or lower

Growth Metrics (Strongest 40%)

- EPS growth 12-month: 53%
- EPS growth 5-year: 16%
- Sales growth 12-month: 21%
- Sales growth 5-year: 9%

Dividend Metrics

- Dividend growth 12-month: 4.8% (highest 60%)
- Dividend growth 12-month: 4.8% (highest 60%)
- Current yield (%): 1.9% (highest 80%)

Momentum Metrics

- 26-week relative strength of at least 70%
- Trading within 90% of 52-week high
- Weighted four-quarter relative strength rank of at least 61%

Reasons to Sell a Stock

- The stock no longer matches your strategy (e.g., value becomes expensive, sales decline instead of growing, etc.)
- A company stops being profitable
- The dividend is cut
- A negative change occurs in the business
- You purposely established a predefined stop price

Resources for Finding Stocks

- AAII Stock Screens
- Model Shadow Stock Portfolio
- Investing Ideas Page
- Stock Evaluator
- Custom Stock Screener (A+ Investor and Platinum)
- Find all on AAII.com

	Factor Strategy	V	G	M	S	EE	Y	Q	I	O
☆	ADR Screen	V		M						
☆	Cash Rich Firms Screen	V						Q		
★	Dividend (High Relative Yield) Screen	V	G				Y			
☆	Dogs of the Dow Screen	V					Y			
☆	Dogs of the Dow: Low Priced 5 Screen	V					Y			
☆	Dual Cash Flow Screen		G					Q		
☆	Est Rev: Down 5% Screen					EE				

PRISM Academy: Stocks

- Lessons 5–10 in the PRISM Academy:
  - Lesson 5: Narrowing Down the Stock Universe
    - Delves into how to narrow down the list of over 5,000 U.S.-listed stocks
    - This checklist helps you to hit each and every one of your individual needs as well as preferences before adding anything to your portfolio: the "How to Narrow Down the Stock Universe" checklist
  - Lesson 6: Finding a Stock: Where to Start
    - Resource: Finding a Stock: Where to Start checklist PDF
    - Newest lesson, released today (March 31, 2022)
  - Lesson 7-10: How to Buy/Sell Stocks
    - Resources: Buy and sell rules for specific stock investing styles such as momentum, value, growth and income. This will be a comprehensive checklist of guidelines so you can create your own rules.

Bonds and Cash Equivalents

Preferences and Constraints

- What allocation need are you trying to meet?
- Is it for an ongoing allocation?
- Are you looking for easy access to withdrawals?
- Is tax-efficiency important?
- Are you willing to accept more risk for more volatility?

Some of the Options

- Individual bonds—can be held to maturity
- Bond funds—easy diversification
- Defined-maturity bond funds—a hybrid of bonds and bond funds
- Certificates of deposit (CDs)—can be laddered like bonds
- Money market funds—frequently pegged to $1; provide quick access to cash

Big Drivers of Bond Prices

- Maturity—Longer maturities provide more income but are more sensitive to interest rate changes; can be matched to spending horizons
- Credit quality—Inversely related to risk of default; lower credit ratings come with higher yield; investment grade is safer (AAA/Aaa to BBB/Baa)

Bond Taxation

	Taxable	
Bond Type	**Federal**	**State and Local**
Treasury	X	
Municipal*		
Corporate	X	X
**Can influence Medicare Part B premiums and the taxation of Social Security benefits.*		

Buy and Sell Guidelines for Bonds

- Determine type and maturity based on preferences and needs
- Holding to maturity gives you known return
- Decide in advance if coupon (interest) payments will be reinvested or not
- Consider selling if credit quality worsens or proceeds are needed

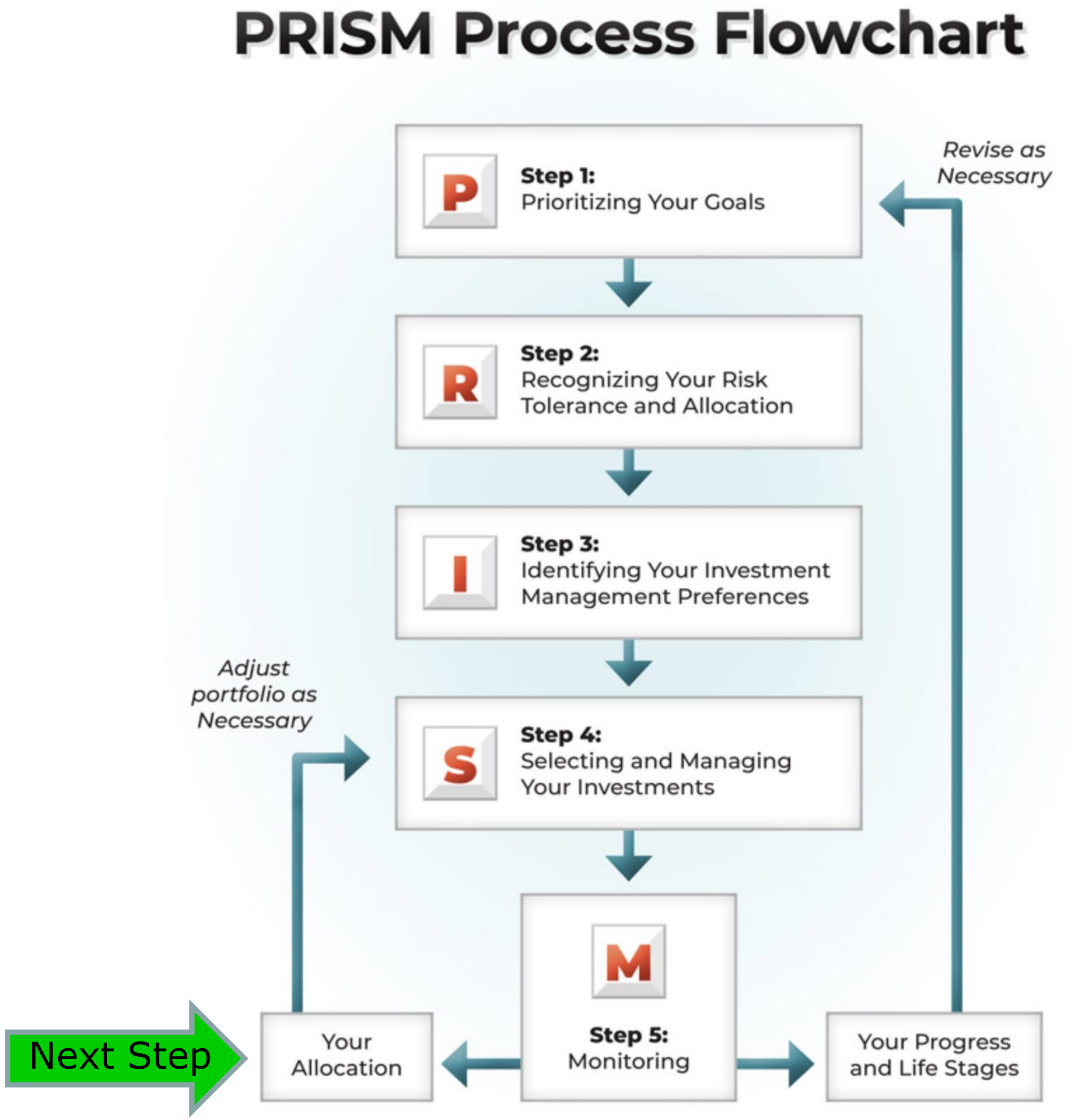
Buy and Sell Guidelines for Bond Funds

- Similar to stock funds (especially low expense ratios)
- Higher category risk than peer funds suggests more credit risk, more interest rate risk or both

PRISM Academy: Bonds

- Lessons 11–13 will cover various aspects of selecting bonds for your portfolio:
  - Lesson 11: Narrowing Down the Bond Universe
    - Checklist for how to create a manageable list of potential bonds to add to your portfolio.
  - Lesson 12: Finding a Bond: Where to Start
    - Specific guidelines on how to start researching which bonds would be good portfolio additions based on your preferences and allocation.
  - Lesson 13: Buy, Sell and Hold Rules for Bonds
    - Checklist on the various buy, sell and hold suggestions you can use to create your own rules when investing in bonds.

PRISM: Wealth-Building Process



Participate in the AAII Community

Join us in the PRISM Academy to complete Step "S," Selecting and Managing Your Investments.

Participating in our online discussions help you learn how to use the Selecting and Managing Your Investment worksheets and other resources to choose the right investments for your portfolio.

Join Us in the PRISM Academy

PRISM Wealth-Building Academy

- An interactive experience to help you create your own personalized wealth-building plan with PRISM
- All new instructional videos and tools
- Customizable worksheets
- Community forums to share ideas and discuss PRISM with other AAII members

AAII PRISM Academy Syllabus

Introduction: Welcome to the PRISM Academy

P - Prioritizing Your Goals

- Lesson 1: Prioritizing Your Goals
- Lesson 2: Why Start with Goals?
- Lesson 3: What Are Your Goals?
- Lesson 4: The Key Components of Goals
- Lesson 5: The Timing of Goals
- Lesson 6: Wealth Required to Fulfill Each Goal
- Lesson 7: Prioritizing Goals (Final Lesson of Step 1)

R - Recognizing Your Risk Tolerance and Allocation

- Lesson 1: Recognizing Your Risk Tolerance and Allocation
- Lesson 2: What Is Risk?
- Lesson 3: Short-Term vs. Long-Term Risk
- Lesson 4: Timing Aspects of Risk
- Lesson 5: Financial Aspects of Risk
- Lesson 6: Psychological Aspects of Risk
- Lesson 7: Understanding Your Risk Tolerance
- Lesson 8: The AAII Risk Assessment Worksheet Walkthrough
- Lesson 9: The Importance of Allocation and Diversification
- Lesson 10: Gain Confidence in Your Allocation for the New Year With PRISM

I - Identifying Your Investment Management Preferences

- Lesson 1: Identifying Your Investment Management Preferences (**Worksheet!**)
- Lesson 2: Identifying the Impacts of Different Types of Accounts
- Lesson 3: Identifying the Impacts of Additional Constraints
- Lesson 4: Choosing Between Funds vs. Securities Based on Preferences
- Lesson 5: Deciding Whether to Work with a Financial Professional
- Lesson 6: Determining Your Investment Management Preferences

S - Selecting and Managing Your Investments

- Lesson 1: Selecting and Managing Your Investments (**Worksheet!**)
- Lesson 2: Narrowing Down the Fund Universe
- Lesson 3: Finding a Fund: Where to Start (**PDF Checklist**)
- Lesson 4: Buy and Sell Rules for Mutual Funds and ETFs (**PDF Guidelines**)
- Lesson 5: Narrowing Down the Stock Universe
- **Lesson 6 -9 Finding a Stock: Where to Start - (Coming Soon: March 31, 2022)**

M - Monitoring Your Allocation, Progress and Life Stages

- Coming Soon

PRISM Wealth-Building Academy:

www.aaii.com/learnandplan

AAII Community:

https://community.aaii.com

Did you complete today's lessons in the AAII PRISM Academy online?

Step 4, Lessons 6–9 are available to all PRISM Academy students:

These mini lessons are focused on the various guidelines for selecting which stocks to add to your portfolio.

There is a worksheet/checklist and discussion questions.

Please log in to the online AAII PRISM Academy to complete these three lessons.

PRISM Academy Schedule

Selecting and Managing Your Investments

- 3/31/22: Lessons 6 - Finding a Stock: Where to Start
- 4/7/22: Lessons 7-10 - Buy and Sell Rules for Stocks
- 4/14/22: Lesson 11 - Narrowing Down the Bond Universe
- 4/14/22: Lesson 12 - Finding a Bond: Where to Start
- 4/21/22: Lesson 13 - Buy, Sell and Hold Rules for Bonds
- 4/21/22: Lesson 14 - The Importance of Writing Down Your Buy and Sell Rules

Monitoring Your Allocation, Progress and Life Stages

- 4/28/22: Lesson 1

A Few Final Thoughts

- Writing down rules will lead to more disciplined and less emotional decisions
- A checklist of key things to look at can help you better analyze an investment
- Screeners are great for finding ideas
- Success comes from trusting the strategy

Questions?

Upcoming Webinars

April
7

Individual Investor Show:
Find Your Own Winning Portfolio Strategy
Thursday, April 7, 2022 at 4:30 PM CDT

April
13

AAII Expert Roundtable:
Using AAII's Premium Services to Navigate 2022 and Beyond
Wednesday, April 13, 2022 at 1:00 PM CDT

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