Kick-Starting Wealth Creation for Recent Graduates and Young Professionals

AAII
AMERICAN ASSOCIATION OF INDIVIDUAL INVESTORS®

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Do This First

- Figure out where your money is currently going
- If you have debt, determine how much and what your monthly payments are
- Create and fund a savings account
- Sign up for your 401(k) or similar type of account
- Open a brokerage account
- Create a PRISM Wealth-Building Plan
- Ignore the stock market’s daily moves

Track Your Spending

- Before you can save and invest, you need to figure out where your money is going
- How much spending is mandatory?
- How much is discretionary?
- What is important for you to spend on?

Budget App Comparison

App	Key Features
Clarity Money	Categorizes spending; outlines budget based on spending; automate saving; credit score
EveryDollar	Zero-based budgeting; automatic bank transactions; set reminders; income and spending reports; educational/ motivational videos
Goodbudget	Envelope budgeting; sync and share budgets; debt tracker
Mint	View all accounts at once; create budgets, track bills; credit score
Mvelopes	Envelope budgeting; automatically import transactions; overview of all accounts; reports on spending, balances and net worth
Personal Capital	Net worth; savings planner; budgeting, cash flow; retire-ment planner; education planner; investment checkup; fee analyzer
PocketGuard	Track disposable income; track bills; track and cancel sub-scriptions; set and track goals; automate saving
Simplifi	View all accounts at once; set personalized goals; create budgets; track spending
YNAB	Allocates income to expenses, savings and debt payments; share finances with a partner; goal tracking; run reports

"Comparing and Contrasting Budgeting Apps," *AAII Journal*, October 2020.

Develop Good Credit Habits

- High credit scores = lower interest rates = more to invest
- If you have debt, determine how much and when bills are due
- Create a plan for paying down debt
- Start funding emergency savings to avoid further debt
- Automate bill paying to avoid late payments
- If credit is good, use reward-paying credit cards

Accounts to Set Up

- 401(k) or similar type of employer-sponsored retirement plan [457(b), 403(b), TSP, etc.]
- High-yield savings account
- Brokerage account (including an IRA or Roth IRA)

Your Employer’s Retirement Plan

- You may be automatically enrolled
- More than 1 in 3 plans use a default contribution of 3% of pay according to Vanguard
- Auto-escalation, which increases your savings contribution at preset intervals, is commonly used
- The default investment is commonly a target-date fund
- Maximum contribution is $22,500 for age 49 or younger

How Much Should You Save for Retirement?

- 15% of pay, including any employer match is a good benchmark
- If not possible, set an initial goal of saving enough to maximize your employer’s matching contribution
- Plan on increasing the amount you save every year
- Even small increases add up over time
- The earlier you start, the less you will need to save later

Target-Date Funds

- Frequently the default investment
- Adjusts allocation over a person's career to become more conservative as retirement approaches
- Complement by adding specific funds like small-cap value

Target-Date Fund 2022 Allocations

Fund	Ticker	Stocks (%)	Bonds (%)	Other (%)	Cash (%)	Data as of Date
BlackRock LifePath Index 2050	LIPAX	90.5	2.4	1.0	5.4	9/30/2022
Fidelity Freedom Index 2050	FIPFX	90.7	9.1	0.0	0.2	10/31/2022
T. Rowe Price Retirement 2050	TRRMX	91.2	(0.2)	0.0	9.0	9/30/2022
Vanguard Target Retirement 2050	VFIFX	87.7	9.4	0.0	2.8	10/31/2022
L 2050 Thrift Savings Plan	—	81.8	18.3	0.0	0.0	10/31/2022

"How Target-Date Funds Work," *AAII Journal*, January 2023.

AAII's Fund Comparison Tool

Compare Funds

Add/Remove Funds: vfiax,vftax,vgiax,vpmax COMPARE

Data as of 4/30/2023

	VFIAX	VFTAX	VGIAX	VPMAX
Name	Vanguard 500 Index Admiral	Vanguard FTSE Social Index Admiral	Vanguard Growth & Income Adm	Vanguard PRIMECAP Adm
Category	Large Blend	Large Blend	Large Blend	Large Blend
Index Fund	✔	✔		
Inception Date	11/13/2000	02/07/2019	05/14/2001	11/12/2001
Return 1-Month	1.6% C	1.2% D	0.9% D	1.0% D
Return 3-Month	2.7% A	3.3% A	1.2% C	1.0% D
Return YTD	9.2% A	11.2% A	7.5% C	8.0% C
Return 1-Year	2.6% B	1.2% D	0.9% D	4.1% A
Return 3-Year	14.5% B	13.3% D	14.7% B	14.5% B
Return 5-Year	11.4% A	11.3% A	11.0% B	10.2% C
Category Risk Index	1.01 D	1.07 F	1.00 C	0.98 B
Total Risk Index	1.19	1.27	1.19	1.16

www.aaii.com/funds/compare

IRAs and Roth IRAs

- Set up by you through a brokerage firm
- Offers more investment options, including exchange-traded funds (ETFs)
- Maximum contribution is $6,500 if 49 or younger
- Traditional IRAs—Pay taxes later
- Roth IRAs—Pay taxes now

Mutual Funds Versus ETFs

- Both are pooled investment vehicles
- Mutual funds are bought and sold based on end-of-day prices
- 401(k) plans typically only offer mutual funds
- ETFs can be bought and sold during market hours
- ETFs generally have lower expense ratios
- Mutual funds are typically easier to buy in dollar amounts instead of as full shares

AAII's ETF Guide

Data as of 4/30/2023

Overview | Performance (NAV) | Performance (Price) | Risk | Portfolio | Management & Fees

Search Tickers | Search | Export to XL

	Ticker	ETF Name	1-Mo Return (Price)	1-Mo Grade (Price)	3-Mo Return (Price)	3-Mo Grade (Price)
	VTI	Vanguard Total Stock Market ETF	1.1%	B	1.3%	B
	VOO	Vanguard S&P 500 ETF	1.6%	B	2.7%	A
	SPY	SPDR® S&P 500 ETF Trust	1.6%	B	2.7%	A
	VXUS	Vanguard Total International Stock ETF	1.9%	A	0.3%	C
	IVV	iShares Core S&P 500 ETF	1.6%	B	2.7%	A
	BND	Vanguard Total Bond Market ETF	0.6%	C	0.5%	C
	QQQ	Invesco QQQ Trust	0.5%	C	9.7%	A
	VEA	Vanguard FTSE Developed Markets ETF	2.6%	A	1.7%	B
	VUG	Vanguard Growth ETF	1.0%	B	7.3%	A
	VTV	Vanguard Value ETF	1.8%	B	(2.0%)	D

www.aaii.com/guides/etfguide (preview of new interface)

ETF Comparison Tool

Compare ETFs

Add/Remove ETFs: VTI,QQQ,IWO

COMPARE

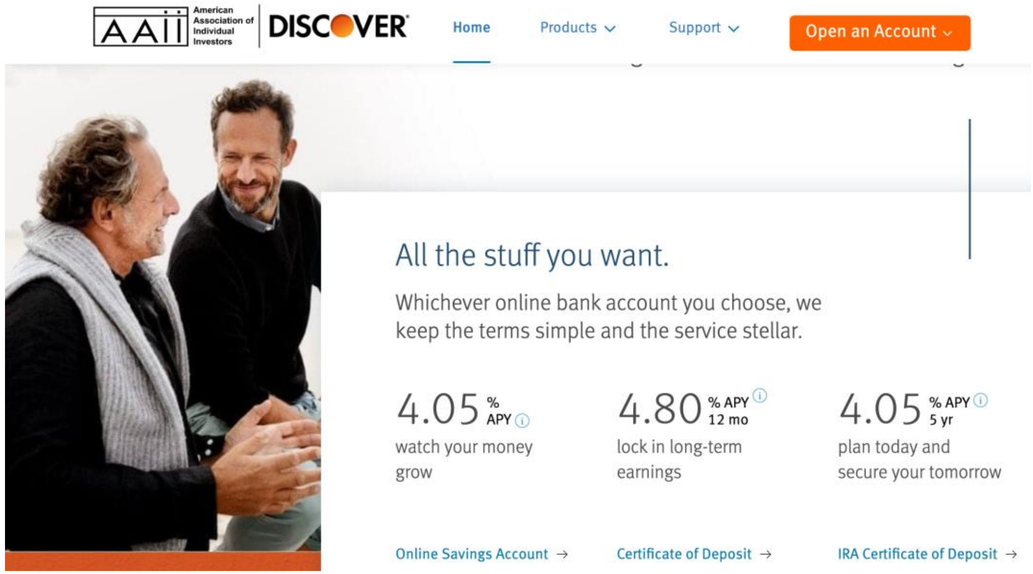
Data as of 4/30/2023

	QQQ	IWO	VTI
Name	Invesco QQQ Trust	iShares Russell 2000 Growth ETF	Vanguard Total Stock Market ETF
Category	Large Growth	Small Growth	Large Blend
Index Fund	✔	✔	✔
Inception Date	03/10/1999	07/24/2000	05/24/2001
Return 1-Month	0.5% C	-1.2% B	1.0% C
Return 3-Month	9.6% A	-4.6% C	1.3% C
Return YTD	21.3% A	4.9% C	8.3% B
Return 1-Year	3.8% A	0.8% B	1.3% D
Return 3-Year	14.4% A	7.8% D	13.9% C
Return 5-Year	15.8% A	4.0% F	10.5% C
Category Risk Index	1.06 F	1.00 D	1.03 D
Total Risk Index	1.55	1.50	1.21

www.aaii.com/etfs/compare

High-Yield Savings Accounts

- Aim to set aside at least 3 to 6 months of expenses
- Have deposits made directly from your paycheck



https://aaii.discoverbank.com

Create a Wealth-Building Plan

- Write down the goal you are trying to achieve
- State whether you can withstand a 20% drop in the stock market
- Choose your allocation: conservative (short-term, preserve capital) or aggressive (long-term, grow capital)
- List your preferred type of investments (mutual funds, ETFs, individual stocks)
- Create basic buy and sell rules
- Set dates to monitor and adjust

Example of a PRISM Plan

My Key Goals

- Highest Priority: Saving for retirement
- When Do I Expect to Reach This Goal? Between the ages of 65 and 70, so in about 30 to 35 years
- How Many Years Do I Expect to Spend on This Goal? At least 20; hopefully, 30 years or longer
- How Much Do I Expect to Need in Savings? $1.5 million to $2 million

My Ability to Tolerate Risk

- Will downward moves in the market ...
  - ... hurt my chances of achieving my goal? Not over the short term
  - ... cause me to pull out of stocks? Hasn't in the past
  - ... impact my ability to take withdrawals in the next 3 to 5 years? Not applicable
- How big of a threat is long-term inflation to achieving my goal? A big one

My Appropriate Allocation

- Aggressive; use AAII's Asset Allocation Model (90% stocks/10% intermediate-term bonds)
- Rationale: Long investing time horizon; saving alone is not enough to achieve the goal—I need my investments to earn a high return. I understand that I will need to endure shorter-term periods of negative returns in order to grow my wealth faster than inflation.

"A One-Page Wealth-Building Plan to Reach the Goal of Retirement," *AAII Journal*, April 2023.

How to Be a Successful Investor

- Constantly and consistently save
- Develop a well-defined approach and stick to it
- Limit the number of decisions you make
- Automate whenever possible
- Use checklists
- Don't panic

If you have a family member who is early in their investment journey, please share this webinar with them.

Also consider whether they might benefit from a membership to AAII.

Gift Member Promo

Basic

Investment education to meet financial goals.

- *AAII Journal*
- Model Portfolio
- PRISM Academy
- Online Community
- Annual guides

$49 /Year

Lifetime

All benefits of basic membership - for life.

- *AAII Journal*
- Model Portfolio
- PRISM Academy
- Online Community
- Annual guides

$290

Platinum

Membership and every premium newsletter.

- A+ Investor
- Growth Investing
- Dividend Investing
- VMQ Stocks
- Stock Superstars Report

$498 /Year

Follow this link to learn more: https://invest.aaii.com/gift/

Questions?