




Investing in Stocks: Understanding the Basics

Presented by:
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Who Are the Top 3 Wealthiest People in the World?

	RANK	NAME	NET WORTH	SOURCE
	1	Elon Musk	\$416.4 B	Tesla, SpaceX
	2	Mark Zuckerberg	\$227.8 B	Facebook
	3	Jeff Bezos	\$226.8 B	Amazon

What Makes a Company Valuable?



Profit!



If a company does not generate profit, and people do not think it will generate profit in the future, it is not worth anything.

When someone is evaluating a company, a simplified way to determine its value is:

Profit x **Industry Multiple**

In the finance world, people use the term **P/E multiple**, which is the company's market price divided by its earnings (aka profit)

Industry multiples vary, depending on several variables:

- Macro economy
- Can it survive recessions?
- Diversified customer base
- Consistent sales and loyal customers
- Stable leadership and corporate culture

Examples of P/E Ratios

 **TESLA : 199.97**

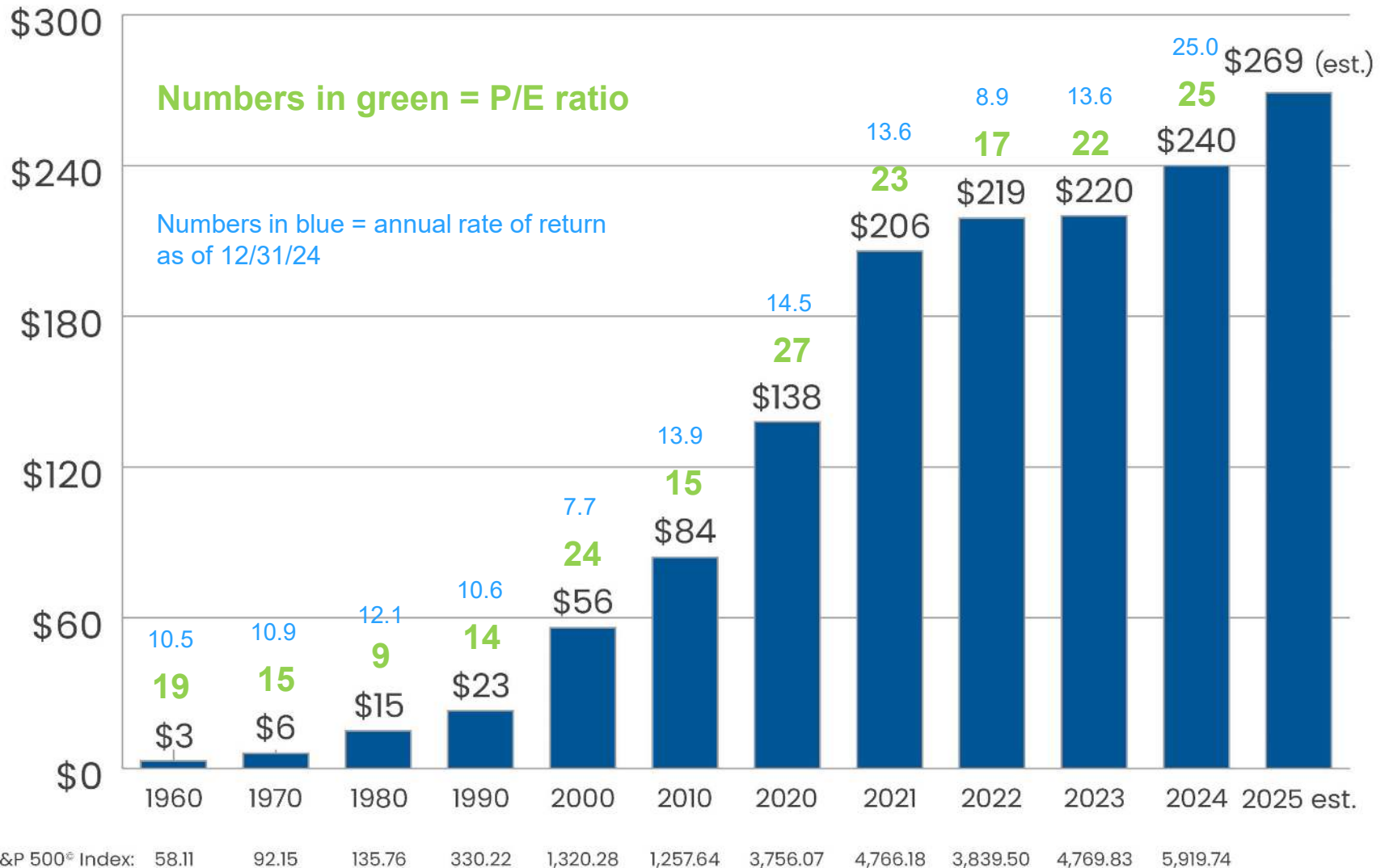
 **Apple : 32.92**

 **Meta : 25.73**

Other notable companies/indexes to provide perspective:

- JP Morgan Chase & Co.: **13.04**
- Delta Airlines: **9.04**
- Ford Motor Company: **8.52**
- VOO (Vanguard S&P 500 ETF): **26.19**
- VXUS (Vanguard Total Int'l Stock Index ETF): **16.10**

S&P 500[®] Earnings per Share Have Grown Over Time



Stock Explained

What Is Stock?

Stock is a piece of ownership in a company



- If a company is worth **\$100** and they issue out **100 shares of stock**, then each share is worth **\$1**.
- If I buy **1 share** in this example, then I would own **1% of the company**.

Stock Examples

Example 1:

- Tesla issues approximately 3.2 billion shares of stock
 - $3.2\text{B} \times \$338$ (share price) = \$1.08T (total market cap)
- Apple issues approximately 14.9 billion shares of stock
 - $14.9\text{B} \times \$211$ (share price) = \$3.16T (total market cap)

When you own shares of stock, you can receive income in the form of a dividend. **Not all companies distribute dividend income...**it is their choice how they allocate profit.

Example 2:

- Tesla does not distribute dividends.
- Apple distributes about 0.49% per year. This is called the dividend yield.
- 1 share of Apple costs approximately \$211. If you held Apple for the entire year, you would receive approximately \$1.04 in dividend income.

What Is the Stock Market?

The stock market is the place where people **buy and sell shares** of companies.

There are multiple stock exchanges, most notable would be the **New York Stock Exchange**, the **NASDAQ**, the **London Stock Exchange**, and the **Tokyo Stock Exchange**, but there are exchanges all over the world.

- These exchanges are well regulated and a secure place to buy stocks

There are over **55,000** companies publicly traded throughout the world.

- There are over **2,000** are listed on the **NYSE**
- There are over **3,000** are listed on the **NASDAQ**



How Is the Stock Price Determined?

- The market is made up of **buyers and sellers**, and that determines the price.
- Prices will change with each passing minute that the markets are open.



Risk and Return

Risk

Investing in stocks entails risk



Risk

Not investing in stocks entails risk



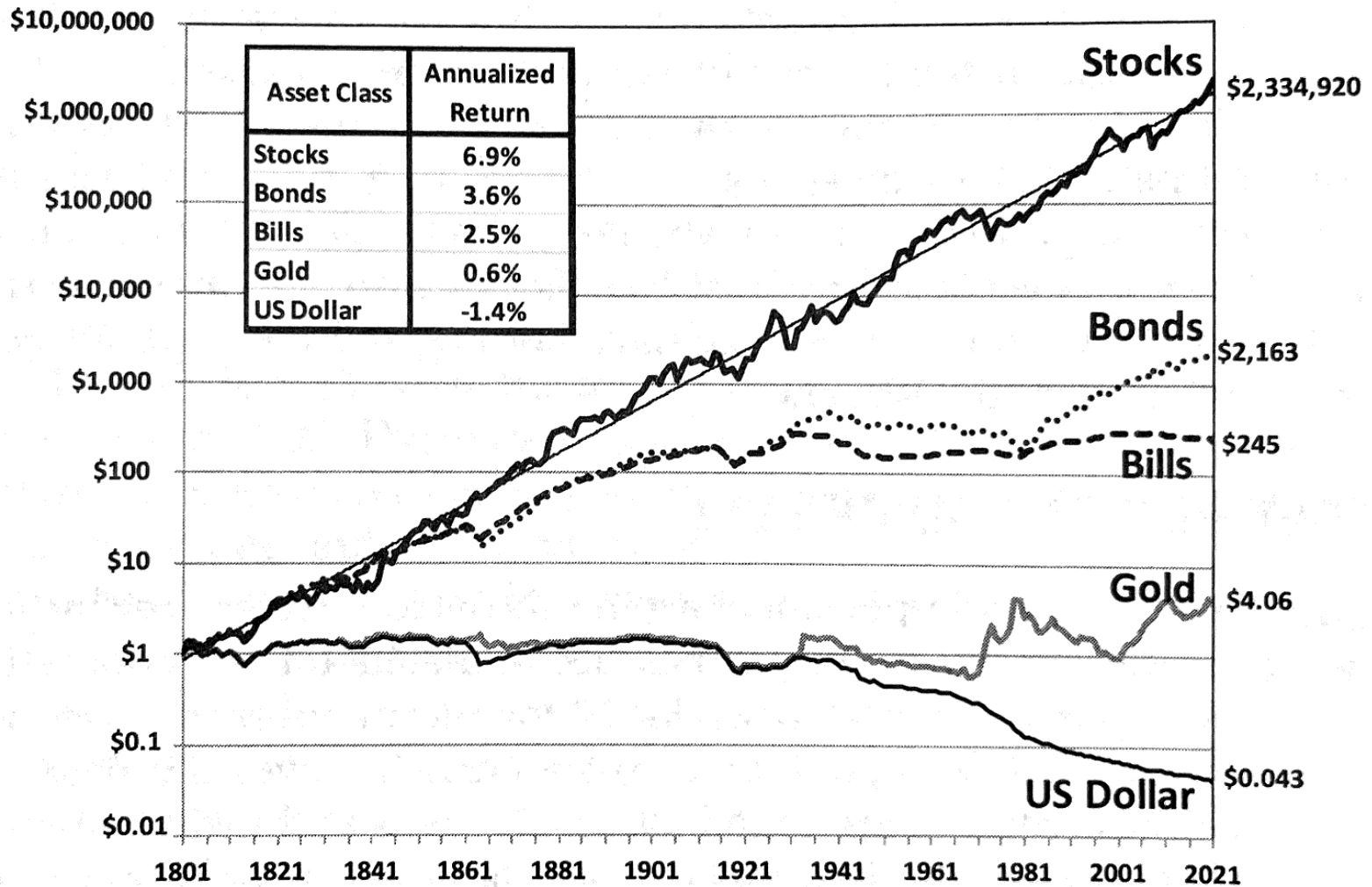
Risk

Our definition of risk is Not meeting your financial goal.

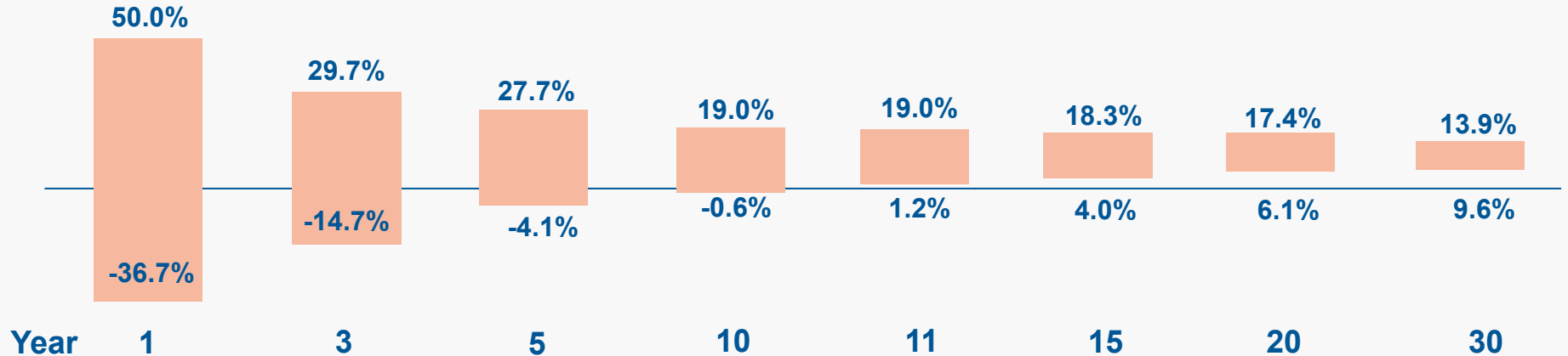
If your financial goal is to build long-term wealth, or to create an income stream to last a normal retirement lifetime, then investing in stocks likely makes sense.



Real Rates of Return



Calendar Year Total Stock Market Returns since 1945



- There have been 3-year periods where money invested has doubled or dropped by 38%.
- There have been 10-year periods, albeit uncommon, where equity returns have been essentially zero.
- \$10,000 invested 40 years ago in the S&P 500 Index would have grown to \$866,000.
- \$10,000 invested 40 years ago in short-term bonds would have grown to \$35,000.

Pop Quiz

Since 1960

**Consumer
Price Index**

11 Times

29.6 in 1960
315.6 in 2024

**Cash Dividend
of the S&P 500**

38 Times

\$1.98 in 1960
\$74.83 in 2024

**Principal Value
of the S&P 500**

101 Times

58.11 in 1960
5,881.63 in 2024

Diversification

Stock Categorization

Small Cap



Companies with a market capitalization below \$2 billion

Mid Cap



Companies with a market capitalization below \$2 billion and \$10 billion

Large Cap



Companies with a market capitalization below \$10 billion and more

Growth

Companies expected to grow faster than the overall market, which often means a higher valuation. These companies traditionally have low dividend yields.

Value

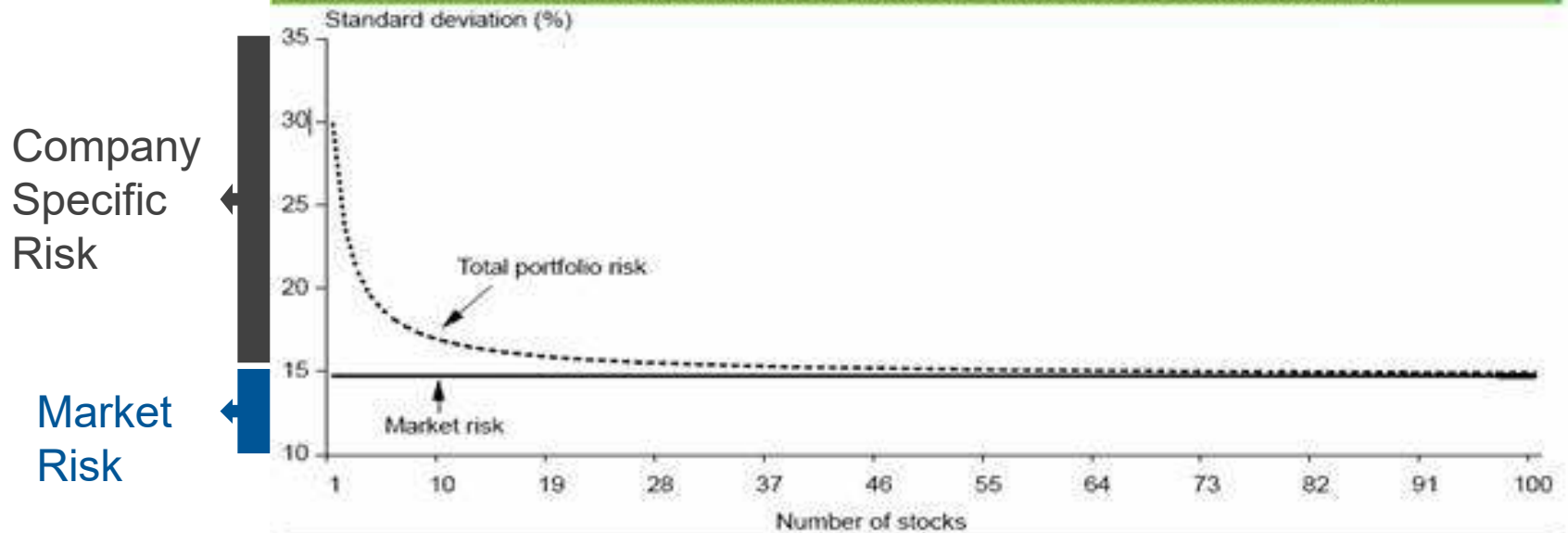
Companies that are perceived to be discounted to their intrinsic value. These companies often have high dividend yields.

Blend

A combination of both growth and value stocks.

How Many Companies Should You Own?

Diversification: total portfolio risk as a function of number of stocks held (%)



Source: Dresdner Kleinwort Macro research

Eliminate company specific risk by owning **30+ stocks**

Mutual Funds and ETFs

A mutual fund offers investors a cost-efficient way to invest in multiple companies, since you can buy fractional shares if necessary

For example, if you only had \$100 dollars to invest, you could not buy 1 share of Apple since it is trading at more than \$200/share.



Beyond the S&P 500



S&P 500 Index

\$51.7T

Total Market Cap

501

Companies

Apple (\$3,543B)

Microsoft (\$3,198B)

Nvidia (\$2,979B)

Alphabet (\$2,050B)

Amazon (\$1,956B)

Meta (\$1,448B)

Russell 3000 Index

\$60.3T

Total Market Cap

2,964

Companies

Southern Copper (\$91B)

Spotify (\$74B)

Workday (\$65B)

Interactive Brokers (\$59B)

DoorDash (\$58B)

Coinbase (\$44B)

MSCI All Country World IMI Index

\$115.8T

Total Market Cap

8,698

Companies

Samsung (\$281B)

Toyota (\$279B)

Nestle (\$263B)

AstraZeneca (\$240B)

L'Oreal (\$239B)

Shell (\$202B)

Benefits of Diversification

Compound average annual returns: 2010 - 2024

MSCI All Country World
Index (gross div.)

9.8%



Excluding the top **10**
contributors each year

6.8%



Excluding the top **25**
contributors each year

5.4%



Equity Returns of Developed Markets

Annual Return (%)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Highest Return	Canada 28.3	Spain 49.4	Finland 48.7	Japan -29.2	Norway 87.1	Sweden 33.8	Ireland 13.7	Belgium 39.6	Finland 46.0	US 12.7	Denmark 23.4	Canada 24.6	Austria 58.3	Finland -3.4	NZ 38.2	Denmark 43.7	Austria 41.5	Portugal 0.2	Italy 37.1	Singapore 32.3
	Japan 25.5	Portugal 47.4	HK 41.2	Switz -30.5	Australia 76.4	Denmark 30.7	NZ 5.5	Denmark 31.3	Ireland 41.2	NZ 7.3	Ireland 16.5	NZ 18.4	HK 36.2	NZ -4.0	Ireland 37.5	Nether. 24.1	Nether. 27.6	HK -4.7	Spain 31.9	US 24.6
	Austria 24.6	Ireland 46.8	Germany 35.2	US -37.6	Singapore 74.0	HK 23.2	US 1.4	Singapore 31.0	US 31.8	Denmark 6.2	Belgium 12.1	Norway 13.3	Singapore 35.6	US -5.0	Switz 32.3	Sweden 23.9	US 26.5	Denmark -4.8	Denmark 31.2	Austria 18.3
	Denmark 24.5	Singapore 46.7	Norway 31.4	Spain -40.6	Sweden 64.2	Singapore 22.1	UK -2.6	Germany 30.9	Germany 31.4	HK 5.1	Japan 9.6	Australia 11.4	Denmark 34.7	HK -7.8	Nether. 32.1	US 20.7	Canada 26.0	UK -4.8	US 26.5	Ireland 14.0
	Norway 24.3	Norway 45.1	Canada 29.6	France -43.3	HK 60.2	Canada 20.5	Switz -6.8	NZ 29.3	Spain 31.3	Belgium 4.1	Austria 3.5	Austria 11.3	Nether. 32.2	Norway -8.6	US 30.9	Finland 20.4	Norway 22.0	Australia -5.3	Nether. 25.8	Canada 11.9
	Finland 16.7	Sweden 43.4	Singapore 28.4	Canada -45.5	Belgium 57.5	Japan 15.4	Norway -10.0	HK 28.3	Nether. 31.3	Singapore 3.0	Italy 2.3	US 10.9	France -28.7	Switz -9.1	Denmark 28.2	NZ 19.9	Sweden 21.9	Norway -7.0	Ireland 24.4	Italy 11.3
	Switz 16.3	Denmark 38.8	Australia 28.3	Germany -45.9	Canada 56.2	US 14.8	Belgium -10.6	Austria 25.9	Belgium 27.6	Ireland 2.3	Finland 2.0	France -4.9	Italy 28.4	Singapore -9.4	Canada 27.5	Ireland 15.1	France 19.5	Spain -7.3	Sweden 23.9	Germany 10.2
	Australia 16.0	Belgium 36.7	Denmark 25.6	Singapore -47.4	NZ 50.4	Australia 14.5	Australia -11.0	Australia 22.1	Japan 27.2	Canada 1.5	Nether. 1.3	Nether. 4.8	Norway 28.3	Portugal -11.1	Italy 27.3	Japan 14.5	Switz 19.3	Singapore -11.0	Germany 23.0	Spain 9.8
	Singapore 14.4	Austria 36.5	Portugal 24.0	Denmark -47.6	Spain 43.5	Switz 11.8	Nether. -12.1	Sweden 22.0	Switz 26.6	Switz -0.1	Portugal 0.9	Portugal -3.6	Germany 27.7	Australia -12.0	France 25.7	Portugal 14.4	Denmark 19.0	Belgium -12.5	France 21.4	Belgium 8.5
	Nether. 13.9	Germany 36.0	Spain 24.0	Nether. -48.2	UK 43.3	Norway 10.9	Spain -12.3	France 21.3	France 26.3	Finland -0.7	US 0.7	Germany 2.8	Spain 27.0	France -12.8	Portugal 23.7	Switz 11.6	UK 18.5	Canada -12.9	Japan 20.3	Japan 8.3
	Sweden 10.3	France 34.5	Nether. 20.6	UK -48.3	Austria 43.2	Finland 10.3	Canada -12.7	Nether. 20.6	Denmark 25.2	Australia -3.4	Switz 0.4	Japan 2.4	Japan 24.0	Japan -12.9	Australia 22.9	Germany 11.5	Italy 15.0	France -13.3	Austria 17.2	UK 7.5
	Germany 9.9	Italy 32.5	France 13.2	Sweden -49.9	Nether. 42.3	Austria 9.9	Japan -14.3	Switz 20.4	Sweden 24.5	Nether. -3.5	France -0.1	HK 2.3	Portugal 23.8	Nether. -13.1	Sweden 21.2	Australia 8.7	Australia 9.4	NZ -13.6	Switz 15.7	Nether. 1.4
	France 9.9	Nether. 31.4	NZ 8.9	Italy -50.0	Portugal 40.4	UK 8.8	Sweden -16.0	Norway 18.7	UK 20.7	Japan -4.0	HK -0.5	Singapore 1.4	Switz 22.5	Sweden -13.7	UK 21.0	HK 5.8	Finland 9.0	Italy -14.4	Canada 15.4	Australia 1.2
	Belgium 9.0	Australia 30.9	UK 8.4	Australia -50.7	Denmark 36.6	Germany 8.4	Denmark -16.0	US 15.3	Italy 20.4	Spain -4.7	Germany -1.9	Sweden 0.6	Finland 22.5	UK -14.2	Germany 20.8	Canada 5.3	Ireland 8.5	Finland -15.3	Australia 14.8	HK 0.1
	HK 8.4	UK 30.6	Italy 6.1	HK -51.2	France 31.8	NZ 8.3	HK -16.0	UK 15.3	Austria 13.4	UK -5.4	Sweden -5.0	UK -0.1	UK 22.3	Denmark -15.4	Belgium 20.3	France 4.1	Singapore 5.7	Japan -16.6	UK 14.1	NZ -1.5
	UK 7.4	HK 30.4	US 5.4	Portugal -52.2	Italy 26.6	Nether. 1.7	France -16.9	Finland 14.6	NZ 11.3	Sweden 7.5	NZ -6.3	Spain -1.0	US 21.2	Spain -16.2	Japan 19.6	Italy 1.8	Germany 5.3	Switz -18.3	Portugal 7.5	Switz -2.0
	US 5.1	Finland 29.9	Switz 5.3	NZ -53.8	US 26.3	Belgium -0.4	Singapore -17.9	Italy 12.5	HK 11.1	Italy -9.5	UK -7.6	Finland -4.7	Sweden 20.6	Canada -17.2	Singapore 15.0	Norway -1.8	Belgium 2.2	US -19.8	NZ 6.1	Sweden -3.7
	Spain 4.4	Switz 27.4	Austria 2.2	Finland -55.2	Switz 25.3	France -4.1	Germany -18.1	Canada 9.1	Portugal 11.0	France -9.9	Australia -10.0	Switz -4.9	Australia 19.9	Italy -17.8	Austria 14.5	Austria -3.3	Japan 1.7	Germany -22.3	Belgium 5.9	Norway -4.3
	Italy 1.9	Canada 17.8	Sweden 0.6	Norway -64.2	Germany 25.2	Portugal -11.3	Portugal -23.1	Japan 8.2	Norway 9.4	Germany -10.4	Norway -15.0	Ireland -7.1	Belgium 18.6	Germany -22.2	Spain 12.0	Spain -4.8	Spain 1.4	Ireland -26.2	Norway 5.9	France -5.3
	NZ 1.7	NZ 16.6	Belgium -2.7	Belgium -66.5	Ireland 12.3	Italy -15.0	Italy -23.2	Ireland 5.7	Canada 5.6	Norway -22.0	Spain -15.6	Belgium -7.6	Ireland 18.1	Ireland -25.3	Norway 10.4	Singapore -7.5	Portugal 0.2	Austria -26.4	Singapore 5.3	Finland -7.3
	Portugal -1.9	US 14.7	Japan -4.2	Austria -69.4	Finland 11.1	Ireland -18.1	Finland -31.9	Portugal 3.5	Australia 4.2	Austria -29.8	Singapore -17.7	Italy -10.5	Canada 16.1	Belgium -26.9	HK 10.3	Belgium -8.1	HK -3.9	Nether. -27.7	Finland -5.6	Denmark -12.9
Lowest Return	Ireland -2.3	Japan 6.2	Ireland -20.1	Ireland -71.9	Japan 6.3	Spain -22.0	Austria -36.4	Spain 3.0	Singapore 1.7	Portugal -38.2	Canada -24.2	Denmark -15.8	NZ 11.7	Austria -27.4	Finland 9.5	UK -10.5	NZ -17.1	Sweden -28.4	HK -14.8	Portugal -25.2

Source: Dimensional

Active vs. Passive

It Is Challenging to Beat the Market

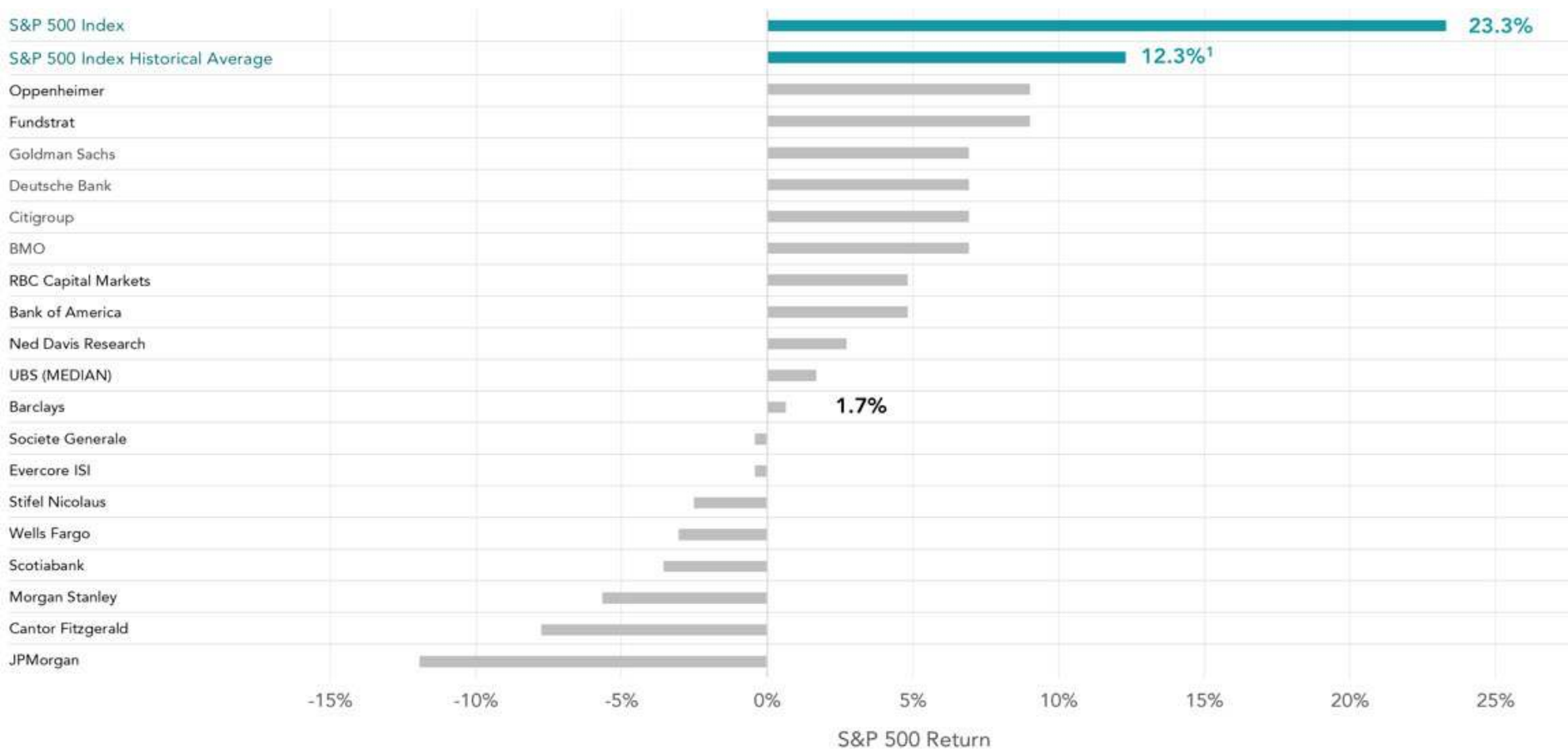
Percentage of US Equity Funds *Underperforming* Their Benchmark

Fund Category	Comparison Index	1-Year (%)	3-year (%)	5-Year (%)	10-Year (%)	15-Year (%)	20-Year (%)
Large Cap Funds	S&P 500	65.24	84.96	76.26	84.34	89.50	91.99
Mid Cap Funds	S&P MC 400	62.00	74.64	80.00	77.32	87.50	90.93
Small Cap Funds	S&P SC 600	29.69	53.03	60.37	82.22	90.68	90.80
Real Estate Funds	S&P US REIT	80.52	85.19	82.93	82.42	88.00	90.12

Market Forecasts vs Reality for 2024

Equity analyst predictions vs. actual for S&P 500 Index

Calendar year price return in 2024 (does not include dividends)



It Is More Expensive to Buy Active Funds

Average mutual fund price for active: **0.68%**

Average mutual fund price for passive: **0.06%**



Mental Framework

Common Objections to Stock Ownership

It's too volatile...
I don't have time
to recover.

There is an
election coming, I
will wait until things
cool down.

The market is
at a high point;
I will wait until
the next drop.

Missing the Best Days

Performance of the S&P 500 Index, 1990 - 2024



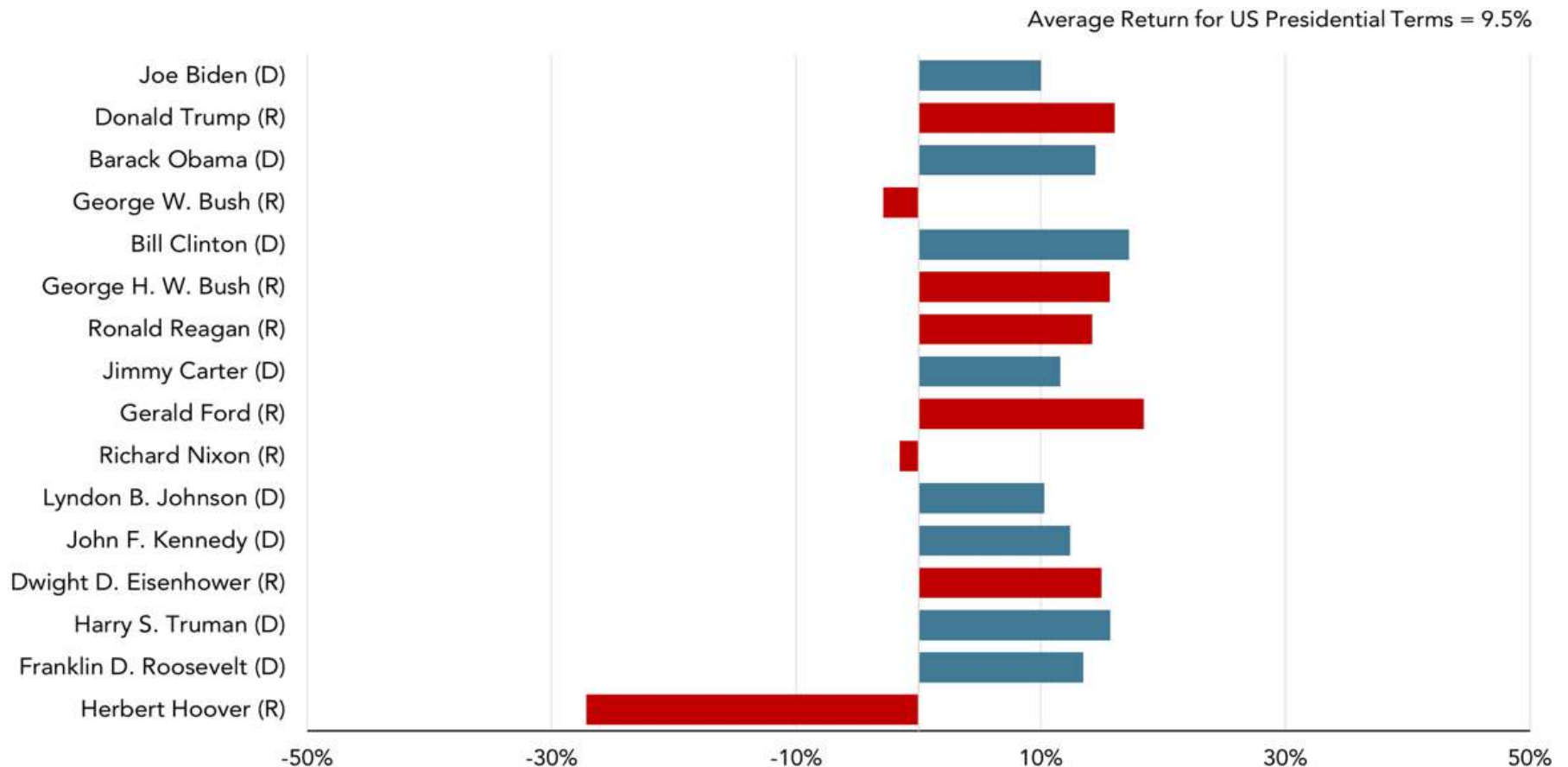
Down and Back Again

Trough Date	Return	Months to Reach Trough	Recovery Date	Months to Recover
Oct-57	-20.7%	3	June-58	8
Jun-62	-27.9%	6	May-63	10
Oct-66	-22.2%	7	Mar-67	5
May-70	-36.1%	17	Aug-71	15
Oct-74	-48.3%	20	Nov-78	49
Mar-78	-19.4%	17	Apr-79	13
Mar-80	-17.1%	1	Jun-80	3
Aug-82	-27.1%	20	Oct-82	2
Dec-87	-33.5%	3	Mar-89	15
Oct-90	-19.9%	3	Jan-91	3
Aug-98	-19.3%	1	Oct-98	2
Oct-02	-49.1%	29	Jan-07	39
Mar-09	-56.8%	16	Jan-12	34
Jul-10	-16.0%	2	Oct-10	3
Oct-11	-19.4%	5	Jan-12	3
Dec-18	-19.8%	3	Mar-19	3
Mar-20	-33.9%	1	Aug-20	5
Oct-22	-25.4%	10	Jan- 24	15
Avg:	-28.6%	10		13

US Presidential Terms

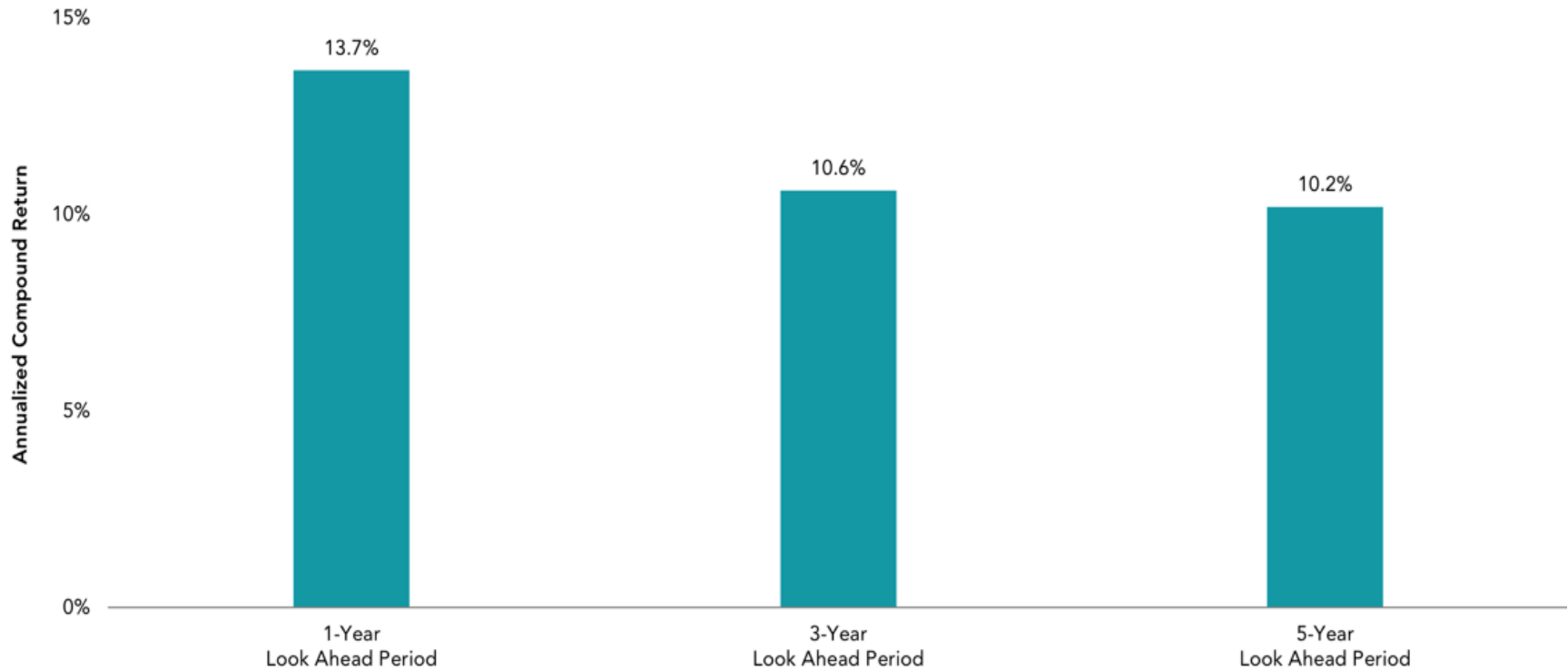
S&P 500 Index, Annualized Returns

March 1929 – December 2023



After New Market Highs

S&P 500, Average Annualized Returns
January 1926 – December 2024



Take It From The Experts



“The investor’s chief problem-and his worst enemy-is likely to be himself. In the end, how your investments behave is much less important than how you behave.”

“The best way to measure your investing success is not by whether you’re beating the market but by whether you’ve put in place a financial plan and a behavioral discipline that are likely to get you where you want to go.”

Benjamin Graham



“Far more money has been lost by investors trying to anticipate corrections, than lost in the corrections themselves.”

“The real key to making money in stocks is not to get scared out of them.”

Peter Lynch



“A market downturn doesn’t bother us. It is an opportunity to increase our ownership of great companies with great management at good prices.”

“The stock market is a device to transfer money from the impatient to the patient.”

Warren Buffett

Questions?



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Exploring Wealth
Building Concepts

February 27

Navigating the Home
Buying Process

March 25

Tax Education:
Pre-tax vs. Roth
Explained

April 29

Financial Planning:
Creating a Strategy
That Works For You

May 22

Investing in Stocks:
Understanding
the Basics

June 26

Annuities 101:
What You Need
to Know

July 29

Estate Planning:
Strategies for Protecting
Your Assets

August 28

College Planning:
Navigating
Education Costs

September 25

Medicare Insights:
Understanding
Your Options

October 30

Social Security:
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