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**Understanding the basics
of the
Financial Markets
With Patti Handy**






Section 1




**Financial Markets
Made Simple!**

A young man and woman are smiling and embracing each other on a beach. The woman is wearing sunglasses and a green shirt, and the man is wearing a green shirt. They are both looking towards the camera. The background shows a clear blue sky and a sandy beach.

- Investing in the financial markets can be very rewarding, but you must always do your research first!

- Be sure to understand what you are investing in.

- Nobody cares more about your money than you, so take your time and do your homework.



There are two great ways to put your money to work~ Investing in real estate and investing in the financial markets.

Making your money work for you is a beautiful thing!

Important note here! There are no guarantees when investing in the stock market! You can lose money!!

There are many, many ways to do both, but I'll start with some basic definitions to get us going.

What is a stock?



A holder of stock (also referred to as a shareholder) has a claim to a part of the corporations assets and earnings! Pretty cool huh? Ownership is determined by the number of shares a person owns relative to the number of outstanding shares. For example, if a company had 1000 shares stock outstanding and you owned 100 shares, you would have claim to 10% of the companies assets.

What is a mutual fund?

~ A mutual fund is an investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities, such as stocks, bonds and money market instruments.

~ Mutual funds are operated by money managers, who invest the funds capital.

~ Mutual funds are a great way to start investing in the stock market. It allows for diversification, simplicity and allows for small investors to have access to a professionally managed portfolio.

What is a bond?

➤ Bonds are like IOU's. You get to lend a borrower some money and they in return promise to pay you back that money, plus interest. A specific date (maturity date) and interest rate (coupon rate) are in place.

➤ The main categories of bonds are: corporate bonds, municipal bonds and governmental bonds.

What's the DOW?

❑ The DOW (or DJIA) stands for Dow Jones Industrial Average. It is the price weighted average of 30 significant stocks traded on the New York Stock Exchange and NASDAQ.

❑ The DOW was invented by Charles Dow in 1896 and originally tracked only 12 stocks. The list grew to it's current size of 30 stocks in 1928.

❑ It is the single most watched index in the world and includes companies like General Electric, Disney, Exxon, and Microsoft.

What is the S&P500?

- ❖ S&P, which stands for Standard & Poor's, is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors.
- ❖ The S&P500 is one of the most commonly used benchmarks for the overall U.S. stock market.
- ❖ Although the DOW is most renowned, many people agree that the S&P500 is a better representation of the U.S. market, as it contains 500 companies, rather than only 30 that the DOW contains.

The Bulls vs. the Bears

- Oftentimes you will hear the term 'bear market' or 'bull market' on the news. What does that mean?

- A bull market is basically a prolonged period of time where stock prices rise faster than the historical average. (People are happier as they watch their stock portfolios rise 😊)

- A bear market is a time where there is widespread pessimism in the financial markets and there has been a long period of stock prices falling. Simply put, the stock market is going down.



What is a recession?

✓ A recession is a significant decline in activity across the economy, typically lasting 6-18 months.

✓ A technical indicator of a recession is two consecutive quarters of negative economic growth as measured by the country's gross domestic product (GDP).

✓ Although it's a normal part of the business cycle, it is unpleasant.



What is inflation?

- The term is used to represent a rise in prices.

- Inflation occurs when there is too much money in circulation and not enough goods and services.

- Prices will rise when there is this excess demand.




Let's talk about less risky investments.

With less risk, comes less reward.

Typically, the less risky the investment, the less return you will make.

It can be the perfect choice for short term investing.



If you will need your money in 3 years or less, I would suggest you stay very 'liquid', meaning you can get your money at anytime.

These investment options don't typically have great returns, but there is less risk of you losing your capital (your initial investment).



What would fall in the category of 'less risky'?

Here are some examples:

**~Certificates of Deposit
(also known as CD's)**


~Money Market mutual funds

**~Money market account at
your local bank/credit union**

**~Treasuries-a T-Bill or Treasury
bill is like the IOU we
discussed, but has a maturity
of less than one year.**

Section 2





**Simple strategies that
can make a huge
difference!**

**As a young investor, you
have an amazing
opportunity to set yourself
up for wealth.**

**If done consistently and
started early, you may
experience financial freedom
and financial independence
before you know it.**

Strategy #1: Pay yourself first.

◆ Every single month, before you pay your bills, pay yourself something.

◆ Ideally, the withdrawal is taken out of your account automatically so you won't have to remember.

◆ Do this every single month!!

◆ I have seen people accumulate great wealth doing this simple step.

◆ Start out with a dollar amount that you are comfortable with, but don't make it too low.

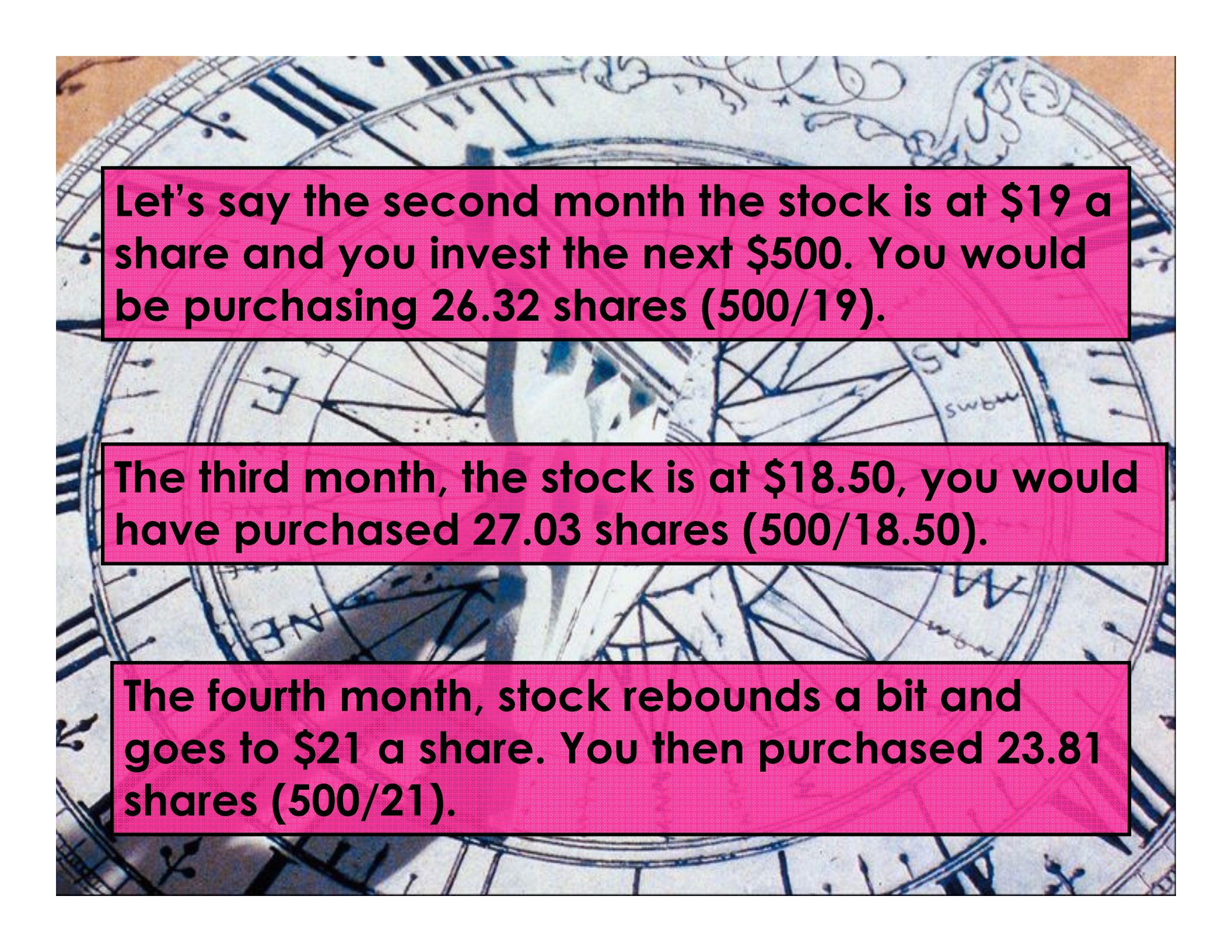
Strategy #2: Dollar cost average

- Let's say you have \$2,000 to invest and because you don't need that money for many years, you decided to place that money in the stock market.
- You researched mutual funds and you found one you liked.
- Rather than do a one time deposit of \$2,000, when your *dollar cost average*, you would break that deposit up into equal increments. For example, you may purchase that fund in \$500 increments over four consecutive months.

Why dollar cost average?

It allows for buying more shares when the price is lower. For example, if you bought a share of stock or mutual fund and the share price was \$20, you would purchase 100 shares if you did a one time investment of \$2,000.

Let's look at it if you dollar cost average. If you purchased \$500 the first month, you would have purchased 25 shares ($500/20$).



Let's say the second month the stock is at \$19 a share and you invest the next \$500. You would be purchasing 26.32 shares ($500/19$).

The third month, the stock is at \$18.50, you would have purchased 27.03 shares ($500/18.50$).

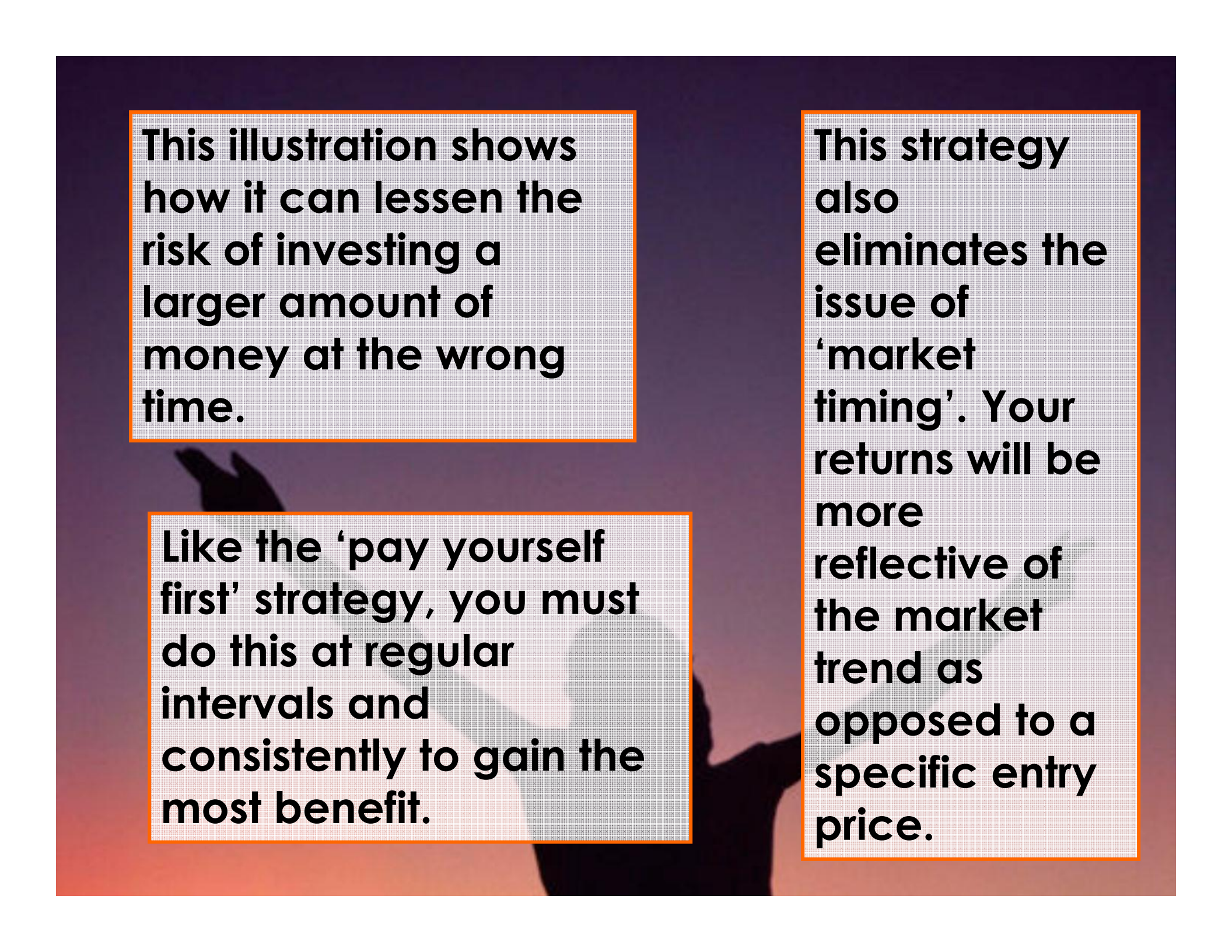
The fourth month, stock rebounds a bit and goes to \$21 a share. You then purchased 23.81 shares ($500/21$).

~Over the four months, you would have purchased 102.16 shares if you used the dollar cost average method. $(25+26.32+27.03+23.81)$.

~You would have purchased 100 shares if you did a one time investment.

~You would own more shares with the same dollar investment.

~This example is hypothetical of course and we can't know for certain the direction of a stock or mutual fund price.



This illustration shows how it can lessen the risk of investing a larger amount of money at the wrong time.

Like the 'pay yourself first' strategy, you must do this at regular intervals and consistently to gain the most benefit.

This strategy also eliminates the issue of 'market timing'. Your returns will be more reflective of the market trend as opposed to a specific entry price.



Exploring Mutual Funds!

As mentioned, mutual funds are a great way to get your feet wet, with relatively little dollars.

Mutual funds are simple to invest in, allow for diversification, very efficient, easy to liquidate (get your money quickly, assuming the timing is right for you) and managed by professional managers.

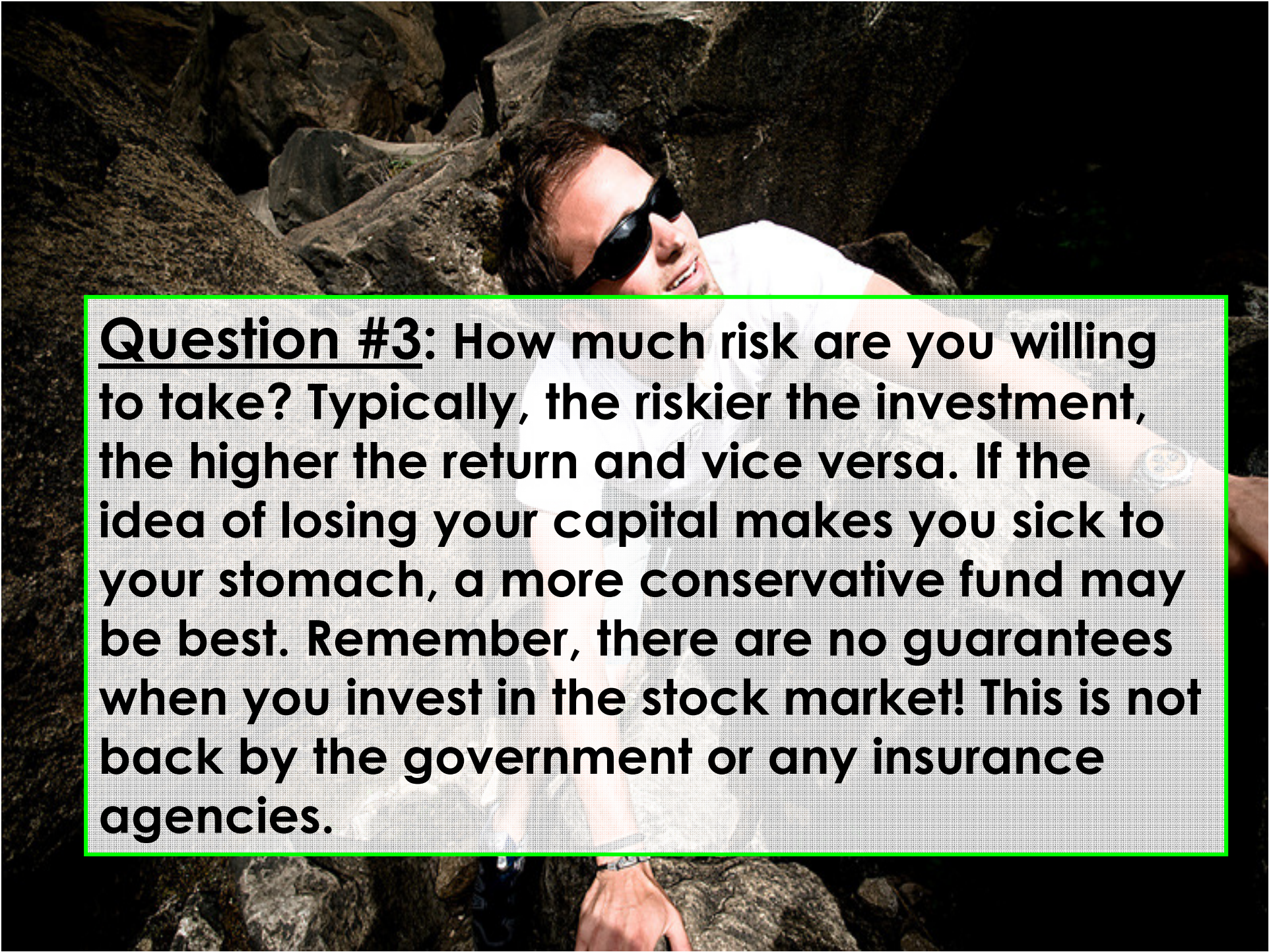
There are hundreds of different mutual funds, so choosing can be a bit overwhelming at first.



There are three questions you must ask yourself before choosing a mutual fund.

Question #1: What is my goal? Are you looking to generate monthly income, grow your portfolio or capital preservation?

Question #2: What is my time frame? How soon will you need this money? If it's short term (under 3-5 years) I would recommend a money market type mutual fund or other conservative fund. If 10 years, you can go a bit more aggressive (assuming you are comfortable with that).

A man with brown hair, wearing dark sunglasses and a white t-shirt, is climbing a dark, craggy rock face. He is looking upwards and to the right with a slight smile. His hands are visible, gripping the rock. The background is dark and textured, suggesting a cave or a steep cliff.

Question #3: How much risk are you willing to take? Typically, the riskier the investment, the higher the return and vice versa. If the idea of losing your capital makes you sick to your stomach, a more conservative fund may be best. Remember, there are no guarantees when you invest in the stock market! This is not back by the government or any insurance agencies.

The background of the entire slide is a close-up, slightly blurred image of the American flag, showing the stars and stripes in a diagonal orientation.

Let's explore the different type of mutual funds!

Money Market Funds: These funds generally invest in short term U.S. treasury bills, CD's or commercial paper. Although they are not federally insured, they are considered very safe investments. Again, these will generally have lower returns, but bring you the peace of mind of a bit more security. This is a good alternative if you'll need your money within a few months or even a few years.



Bond Funds: These funds are a pool of funds, typically invested in corporate, municipal or government bonds.

They fall between the money market funds and stock funds when discussing risk vs. return.

Less risky than stocks, but more risky than money market funds.

Stock Funds: There is a huge choice of stock funds, with various risk levels associated with them.

Some funds primary goal is income, while others are more growth focused (remember those questions you need to ask yourself).

Stock funds invest in companies stock.



A photograph of a cornfield with rows of young corn plants in the foreground and middle ground. In the background, there are rolling green hills under a clear sky. A small white building is visible on the right side of the image.

Hybrid or Balanced Funds: This type of fund invests in both stocks and bonds.

They are also referred to as asset allocation or blended funds.

These funds have the goal of both investment growth and stability.



International: This type of fund focuses on the international market.


Allows for you to invest out of the U.S. if you desire.

Be sure to understand what you are investing in, especially when you invest out of the U.S.

Always seek the advice of a financial professional for additional guidance.

Section 3





As I mentioned earlier, a mutual fund is a great way to get started when you are ready to invest.

Having said that, it's great to learn about individual companies.

Researching a company, especially one that you particularly like, can be very fascinating.

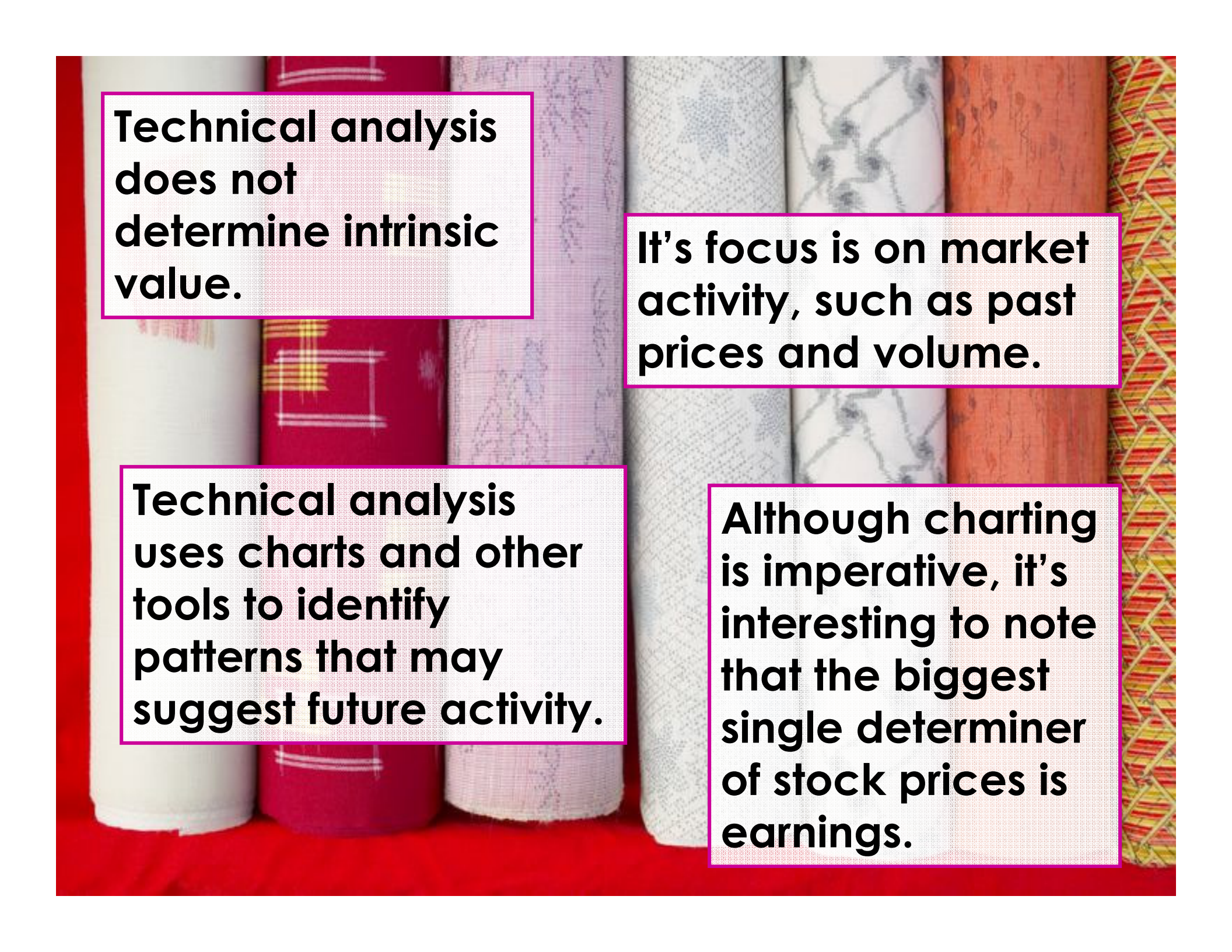
There are basically two ways to analyze a company or stock.



Fundamental analysis and technical analysis.

Fundamental analysis basically means you are looking at the company's books to determine if they are strong, with a favorable future. You are analyzing their stock based on earnings, revenues, future growth, profit margins and other data.

With fundamental analysis you are also trying to determine the company's intrinsic value, which is the value given to a company based on the underlying *perception of value*. For example, McDonald's would be a company with intrinsic value.




**Technical analysis
does not
determine intrinsic
value.**

**It's focus is on market
activity, such as past
prices and volume.**

**Technical analysis
uses charts and other
tools to identify
patterns that may
suggest future activity.**

**Although charting
is imperative, it's
interesting to note
that the biggest
single determiner
of stock prices is
earnings.**

A scenic landscape featuring a two-lane asphalt road with white dashed center lines and solid white edge lines. The road curves gently through a valley. On either side of the road are green fields and patches of brown, tilled earth. In the background, there are rolling hills and mountains under a clear blue sky. A small yellow square is visible in the upper center of the image.

**Please remember that
investing in the stock market
can be risky. You can lose
your principal investment!
Always seek the guidance
of a professional Financial
Advisor!**