Bourbon Financial Management
Excellence. Expertise. Ethics.

ILLINOIS INSTITUTE OF TECHNOLOGY

Investment 101

Be Prepared

November 28th, 2017

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Quotes

“We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful.”

“Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years.”

“Risk comes from not knowing what you're doing.”

Warren Buffet

“Our greatest glory is not in never failing, but in rising every time we fall.”

“A man who does not plan long ahead will find trouble at his door.”

Confucius

“The investor’s chief problem – and even his worst enemy – is likely to be himself.”

Benjamin Graham

Agenda

- **Why This is Important**
- **Asset Allocation and Diversification**
- **Stock Market Basics**

Retirement May Be Long

Probability of 65 Year Old Living to Age 95

	Male	Female	Both	≥1
Average American	7%	13%	1%	19%
Healthy American	20%	29%	6%	43%
Healthy American in ~10 Years	25%	33%	8%	50%

Source: Social Administration 2013 Periodic Life Table, Society of Actuaries 2012 Annuity Mortality Table

At least one member of a 65-year-old healthy couple has a 43% chance of making it to at least 95 years old (retirement of 30 years).

The Overall Cost of Healthcare for a Retired Couple is Over $266,000!

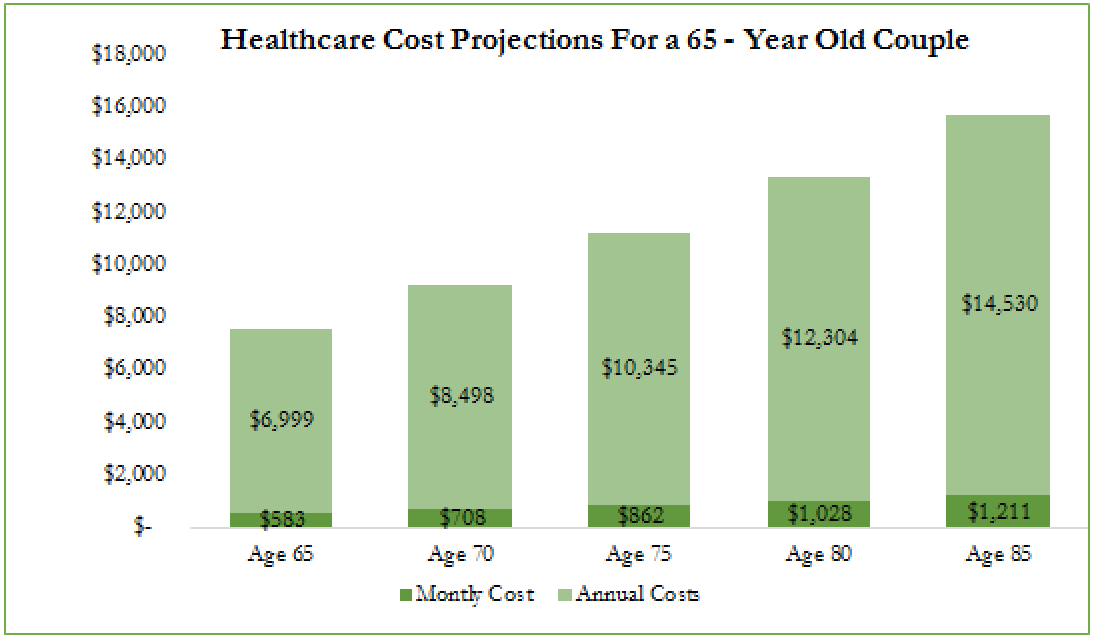


*Figure 1 Source: Healthview Health Cost Data Report 2015 *Assumes Life Expectancy for Male of 87, for Female 89, MAGI under $170,000*

Overall Cost through Life Expectancy:

$266,589

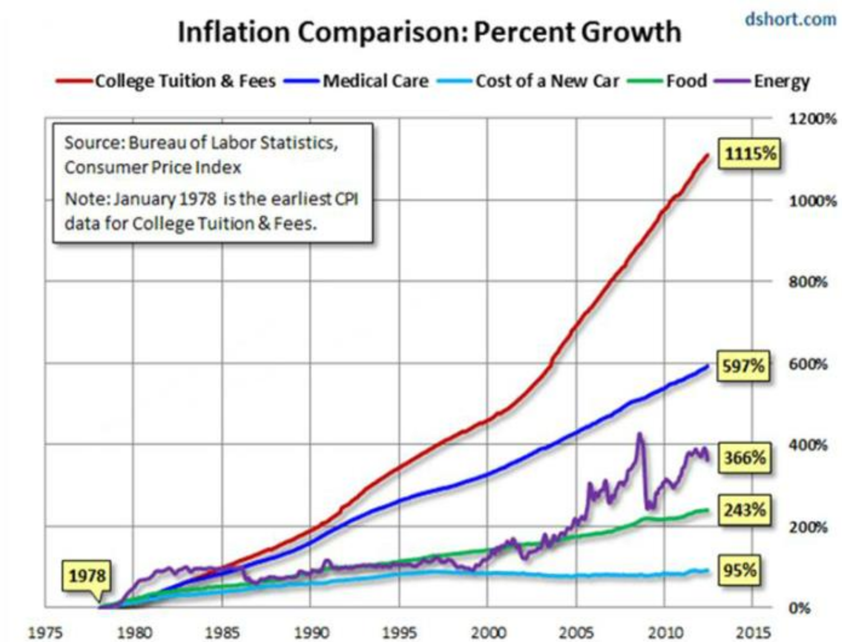
The Effect of Inflation

College Costs

	Public	Private
Today	$76,979	$170,328
5 years	$93,568	$207,034
10 years	$119,419	$264,234
15 years	$152,413	$337,237
18 years	$176,437	$390,394

Source: The CollegeBoard – Trends in College Pricing 2012

Based on a projected 5% college cost inflation rate. Total due for 4 years of college calculated and the four years added together.



http://globaleconomicanalysis.blogspot.com/2012/08/trading-caps-and-gowns-for-mops-why-go.html
From "Trading Caps and Gowns for Mops; Why Go to College If There Are No Jobs? Chasing the American Dream", August 24, 2012

Inflation checklist

	Single-family home	A loaf of bread[1]	College education[2]	Gallon of unleaded gas
	+68%	+97%	+214%	+193%
1991	$ 97,100	$ 0.72	$ 5,452	$ 1.12
2001	147,800	1.01	9,032	1.13
2011	163,500	1.42	17,131	3.28

Sources: National Association of Realtors, U.S. Bureau of Labor Statistics, The College Board, Annual Survey of Colleges

[1] A loaf equals one pound.

[2] Average cost of four years at a public university

1968 1978 2006

Figure 1 shows three postage stamps: 1968, 1978, and 2006– 6 cents, 13 cents, and 39 cents. Each stamp has the same value. Each stamp is first-class postage in the United States. Each stamp has a different price and a different date. What changed between 1968 and 2006 wasn't the value of the stamp, it was the value of the dollar.

Capital Needed to Retire

Annual Spending	$100,000
Divided by	
Sustainable Spending Rate (@ 60)	3.2%
Capital Required to Retire (@ 60)	**$3,125,000**

Age	50	55	60	65	70	75	80	85
Spending Rate	2.8%	3.0%	3.2%	3.5%	3.9%	4.4%	5.1%	6.0%

Source: Ibbotson and Bernstein

$41,200 is equivalent to $100,000 in 30 years (assuming 3% inflation)

Capital Needed to Retire

Money Needed to Retire

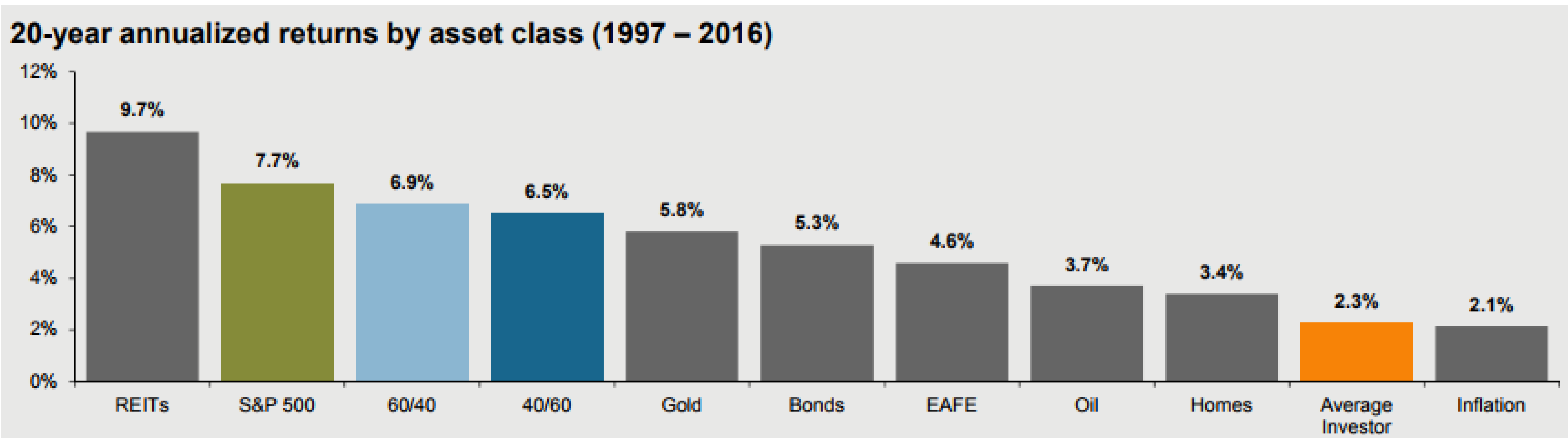
Years to Live	$25,000	$50,000	$75,000	$100,000	$125,000	$150,000	$200,000
	Annual Income Needed to Live						
50 Years	$785,590	$1,571,180	$2,356,770	$3,142,361	$3,927,951	$4,713,541	$6,284,721
45 Years	$737,254	$1,474,508	$2,211,762	$2,949,016	$3,686,270	$4,423,524	$5,898,032
40 Years	$683,887	$1,367,774	$2,051,661	$2,735,548	$3,419,435	$4,103,322	$5,471,096
35 Years	$624,965	$1,249,931	$1,874,896	$2,499,862	$3,124,827	$3,749,793	$4,999,724
30 Years	$559,911	$1,119,823	$1,679,734	$2,239,646	$2,799,557	$3,359,468	$4,479,291
25 Years	$488,086	$976,173	$1,464,259	$1,952,346	$2,440,432	$2,928,518	$3,904,691
20 Years	$408,786	$817,572	$1,226,358	$1,635,143	$2,043,929	$2,452,715	$3,270,287
15 Years	$321,232	$642,463	$963,695	$1,284,926	$1,606,158	$1,927,390	$2,569,853
10 Years	$224,565	$449,129	$673,694	$898,259	$1,122,823	$1,347,388	$1,796,517
5 Years	$117,836	$235,673	$353,509	$471,346	$589,182	$707,019	$942,692

Assumes 2% return on retirement assets and equal annual withdrawals.

Source: TheMoneyWays.com

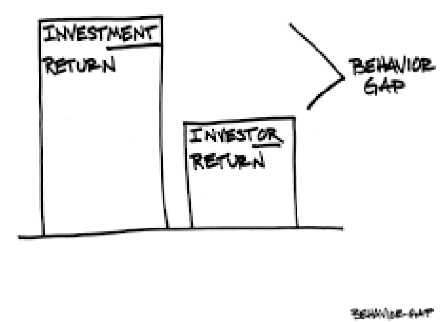
- If you spend $55,000 per year, when you retire in 20 years, it would be the equivalent of $100,000 (assuming 3% of inflation)
- $100,000 annual retirement income means you may need to accumulate $2,239,646 before you retire!

The Average Investors Underperformed



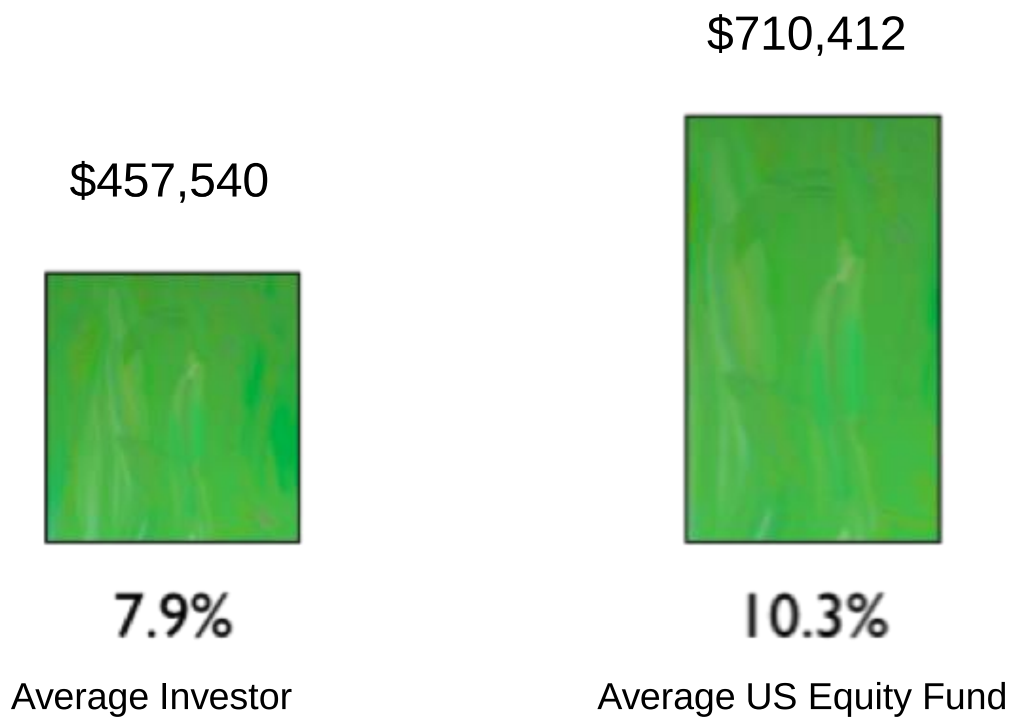
Source: J.P. Morgan Asset Management; (Top) Barclays, FactSet, Standard & Poor's; (Bottom) Dalbar Inc.

The average investor performance over the last 20 years was 2.3% per year (57% cumulative so $100,000 became $157,584) while a balanced portfolio composed of 60% in stocks and 40% in bonds had a performance of 6.9% per year (279% cumulative so $100,000 became $379,799) which is $222,215 more!



Average Investors Underperformed Mutual Funds by 2.4%

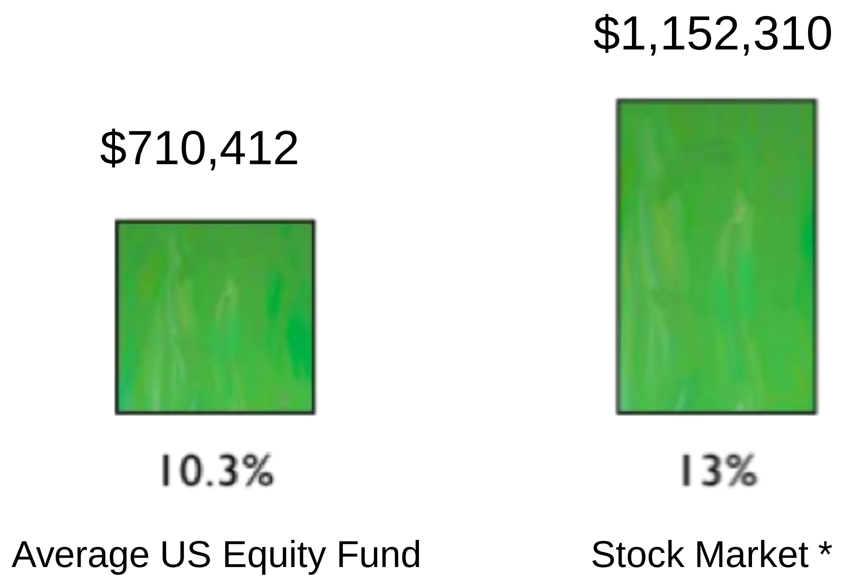
Comparison of returns 1983 – 2003 --- $100,000 invested



Source: Dalbar

Mutual Funds Underperformed the Stock Market by 2.7%

Comparison of returns 1983 – 2003 --- $100,000 invested



Source: Dalbar

From 1988 to 2007, the average equity investor return was 4.5%. The market return was 11.8% per year.

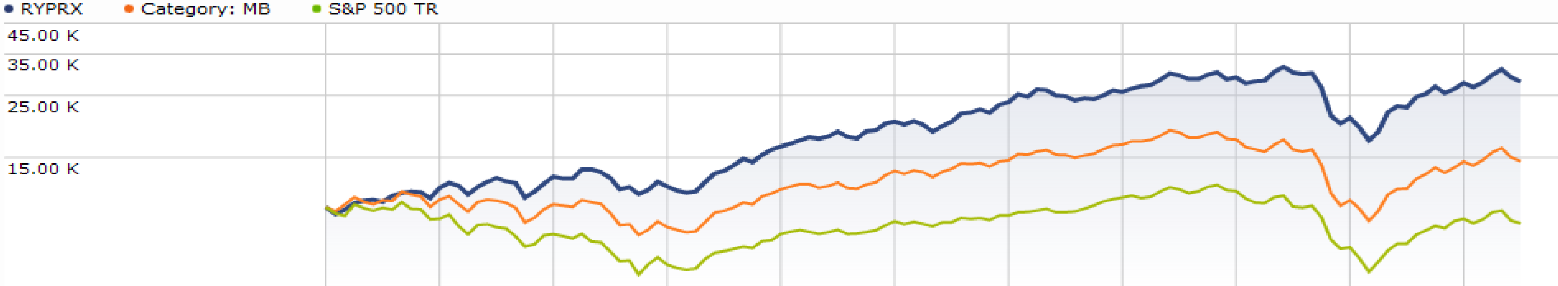
From 1989 to 2009, the average equity investor return was 3.2%. The market return was 8.2% per year.

*US Index Fund or ETF

But Some Funds Outperform

Growth of 10,000

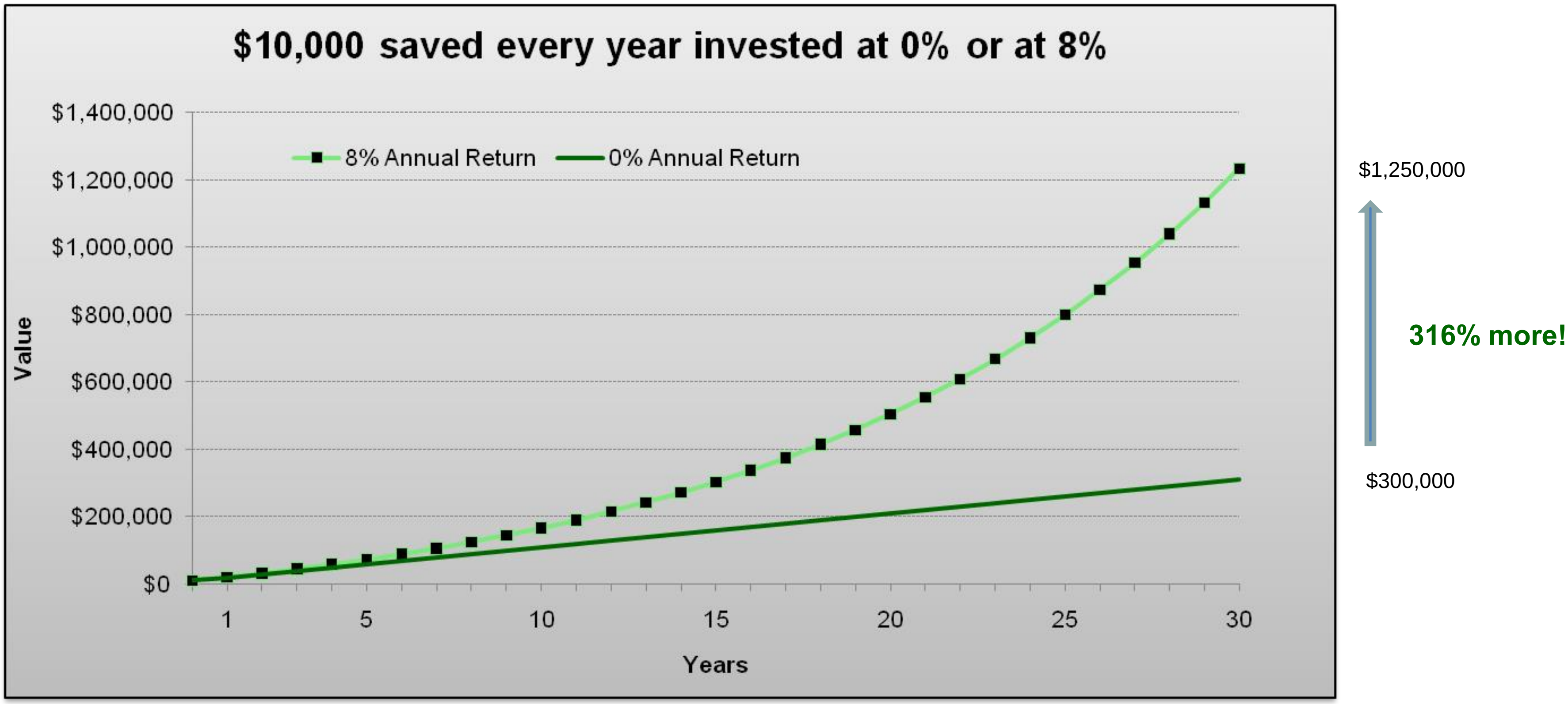
Customize Interactive Chart >>



History (05/31/10)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD
RYPRX	17.12	9.61	-7.75	38.74	22.82	17.07	8.81	12.73	-28.29	33.25	4.72
S&P 500 TR	-9.10	-11.89	-22.10	28.68	10.88	4.91	15.79	5.49	-37.00	26.46	-1.50
Category (MB)	18.51	7.25	-17.79	43.08	18.86	6.94	15.21	4.47	-39.30	37.40	3.41
+/- S&P 500 TR	26.23	21.50	14.35	10.05	11.94	12.16	-6.99	7.23	8.71	6.79	6.22
+/- Category (MB)	-1.39	2.36	10.04	-4.35	3.96	10.13	-6.40	8.26	11.01	-4.15	1.31
Rank in Category	60	43	10	65	16	4	93	9	9	58	39

Total Return % (06/04/10)	1-Year	3-Year	5-Year	10-Year	15-Year
RYPRX	17.39	-2.54	7.41	9.86	11.34
S&P 500 TR	15.32	-9.54	-0.23	-1.42	6.63
Category (MB)	21.48	-8.37	1.58	3.06	8.49
+/- S&P 500 TR	2.07	7.01	7.64	11.28	4.71
+/- Category (MB)	-4.09	5.83	5.83	6.80	2.85
Rank in Category	76	6	2	1	10

Higher Return Leads to Higher Gains



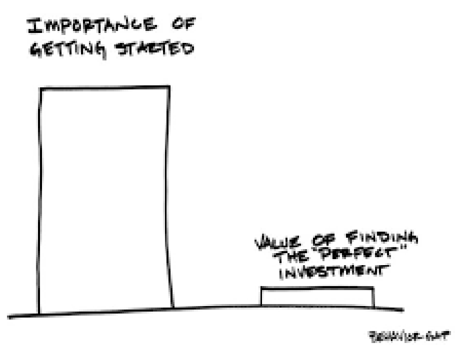
If you do not invest, Inflation guarantees an annual loss

Cost of Procrastination - Start Today!

$729,229

47% more!

$494,229



$10,000 invested every year starting today, for 10 years ($100,000 invested) at 8% annual return will create 45 % more value, or $225,000 more than investing twice more ($200,000 invested) starting 10 years from now for 20 years!

Asset Allocation and Diversification

Diversification is Key

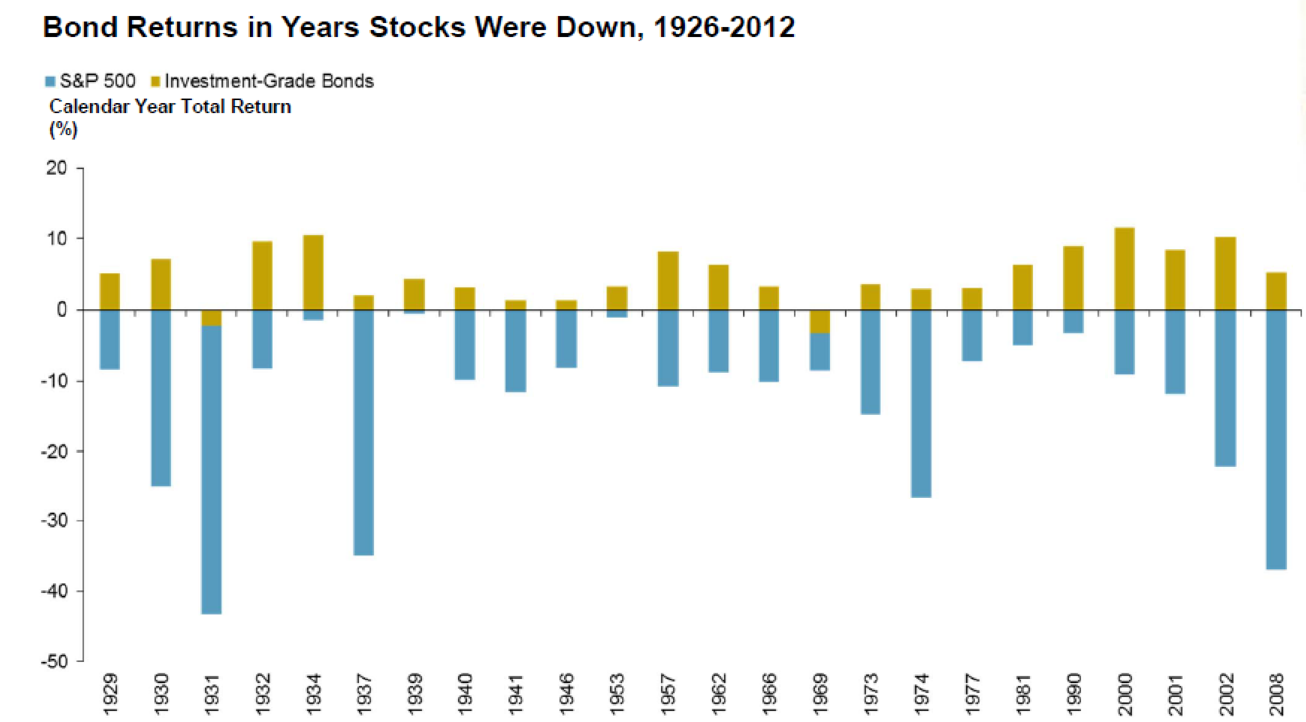
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	1994-2008 Return
Best Performer	Int’l 7.80%	S&P 500 37.60%	S&P 500 23.00%	Mid Value 34.40%	S&P 500 28.60%	Mid Growth 51.30%	Mid Value 19.20%	U.S. Bonds 8.40%	U.S. Bonds 10.30%	Mid Growth 42.70%	Mid Value 23.70%	Int’l 13.50%	Int’l 26.90%	Int’l 11.60%	U.S. Bonds 5.20%	Mid Value 8.65%
	S&P 500 1.30%	Mid Value 34.90%	Mid Value 20.30%	S&P 500 33.40%	Int’l 20.00%	Int’l 27.00%	U.S. Bonds 11.60%	Mid Value 2.30%	Mid Value -9.70%	Int’l 38.60%	Int’l 20.30%	Mid Value 12.70%	Mid Value 20.20%	Mid Growth 11.40%	BFM -31.58%	BFM 6.73%
	BFM 0.38%	Mid Growth 34.00%	Mid Growth 17.50%	Mid Growth 22.50%	Mid Growth 17.90%	S&P 500 21.00%	BFM -0.86%	BFM -8.56%	BFM -12.96%	Mid Value 38.10%	Mid Growth 15.50%	Mid Growth 12.10%	S&P 500 15.80%	U.S. Bonds 7.00%	S&P 500 -37.00%	S&P 500 6.46%
	Mid Value -2.10%	BFM 27.24%	BFM 14.08%	BFM 20.36%	BFM 16.06%	BFM 19.68%	S&P 500 -9.10%	S&P 500 -11.90%	Int’l -15.90%	BFM 30.44%	BFM 14.94%	BFM 9.12%	BFM 15.58%	BFM 6.82%	Mid Value -38.40%	U.S. Bonds 6.17%
	Mid Growth -2.20%	U.S. Bonds 18.50%	Int’l 6.00%	U.S. Bonds 9.70%	U.S. Bonds 8.70%	Mid Value -0.10%	Mid Growth -11.80%	Mid Growth -20.20%	S&P 500 -22.10%	S&P 500 28.70%	S&P 500 10.90%	S&P 500 4.90%	Mid Growth 10.70%	S&P 500 5.50%	Int’l -43.40%	Mid Growth 5.34%
Worst Performer	U.S. Bonds -2.90%	Int’l 11.20%	U.S. Bonds 3.60%	Int’l 1.80%	Mid Value 5.10%	U.S. Bonds -0.80%	Int’l -14.20%	Int’l -21.40%	Mid Growth -27.40%	U.S. Bonds 4.10%	U.S. Bonds 4.30%	U.S. Bonds 2.40%	U.S. Bonds 4.30%	Mid Value -1.40%	Mid Growth -44.30%	Int’l 3.58%

BFM is a hypothetical equal weighted portfolio of the 5 other asset classes

74% More by Diversifying the Portfolio!

	Investment	Annual return	After 30 years
Portfolio A	$100,000	6%	$574,349
Portfolio B	$20,000	0%	$20,000
	$20,000	4%	$64,868
	$20,000	6%	$114,870
	$20,000	8%	$201,253
	$20,000	12%	$599,198
Portfolio B Total		Average 6%	$1,000,189

Diversification is Key (When Stocks are Down, Usually Bonds are Up!)

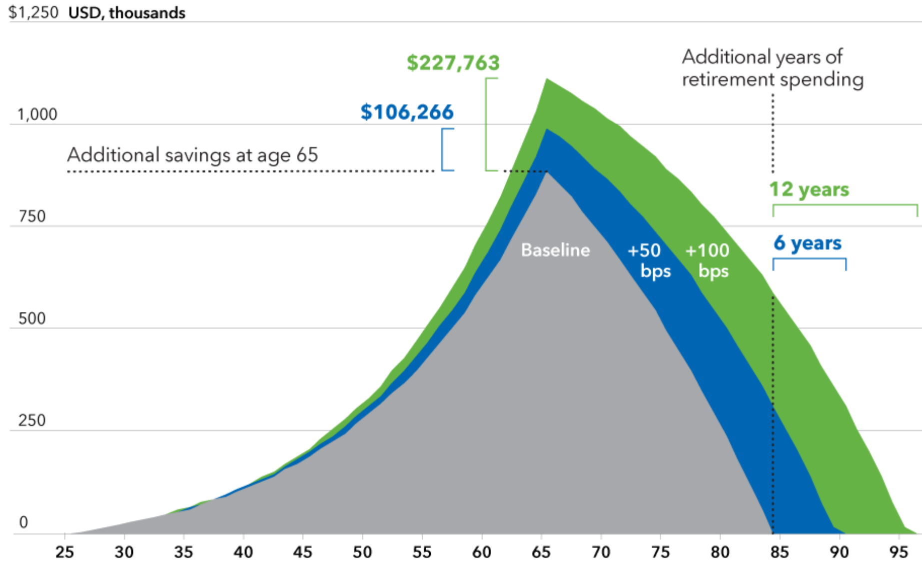


Bond returns are represented by the performance of the Barclays Aggregate Bond Index from January 1976 through December 2013 and by a composite of the IA SBBI Intermediate-Term Government Bond Index (67%) and the IA SBBI Long-Term Corporate Bond Index (33%) from January 1926 through December 1975. Stock returns are represented by the performance of the S&P 500 Index. Past performance is no guarantee of future results. It is not possible to invest directly in an index. Index performance is not meant to represent that of any Fidelity mutual fund. Diversification does not ensure a profit or guarantee against a loss. Source: Morningstar EnCorr, Fidelity Investments (AART) as of 12/31/13.

Your Retirement Assets Could Last 12 More Years

If you increase your portfolio performance by only 1% per year, your retirement assets could last 12 more years!

Even a Small Increase in Returns Can Dramatically Improve Outcomes



Demographic Assumptions

Starting Balance	$0
Starting Age	25
Starting Salary	$40,000
Annual Salary Growth Rate	3%
Annual Contribution Rate	10%
Retirement Age	65
Ending Salary at 65	$130,482

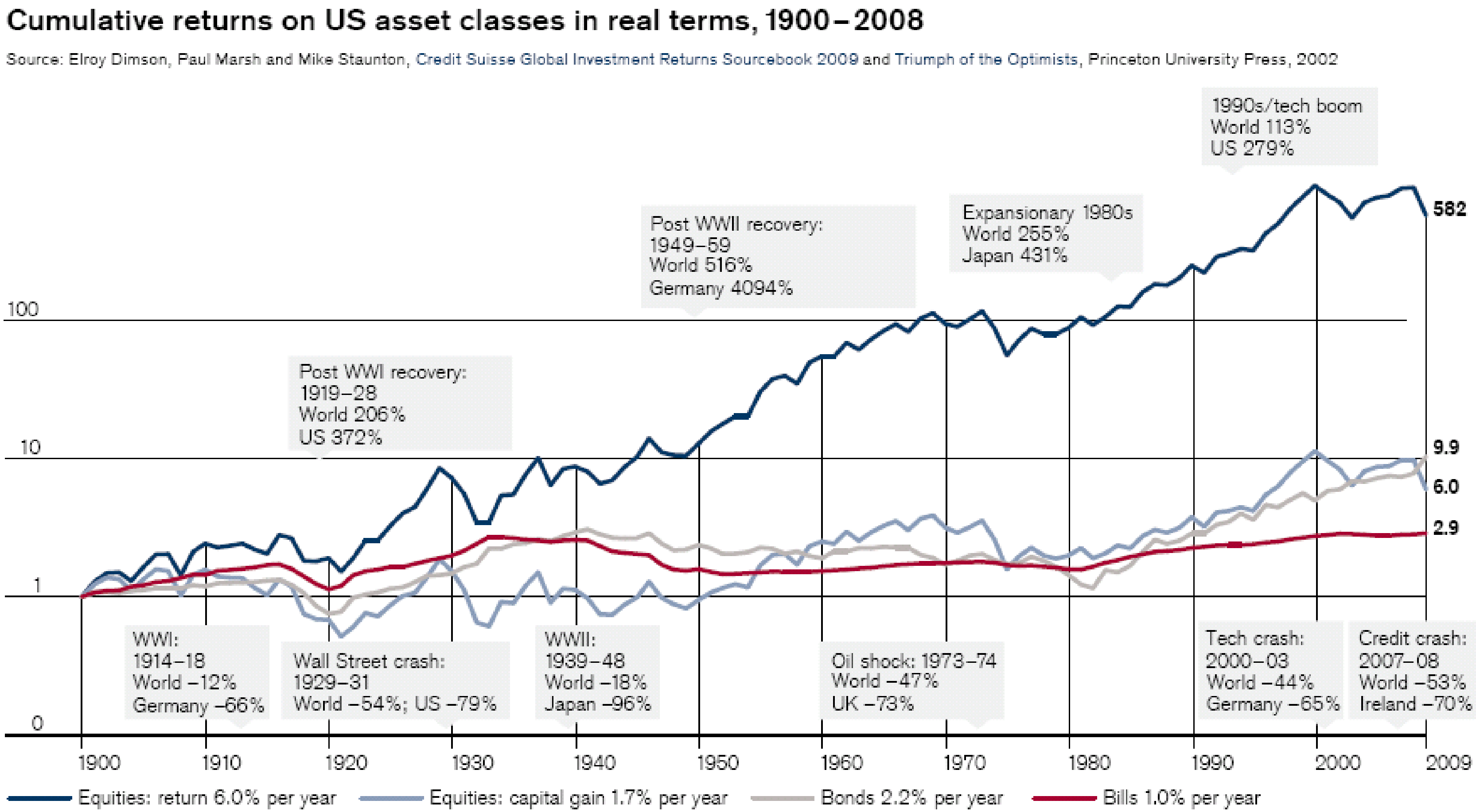
Scenario Assumptions

	Baseline	+50 bps	+100 bps
Returns Before 65	5.5%	6.0%	6.5%
Returns After 65	4.0%	4.5%	5.0%
Account Balance at 65	$886,415	$992,680	$1,114,177
Withdrawal (Percent of Ending Salary)	50%	50%	50%
Annual Withdrawal Amount	$65,241	$65,241	$65,241

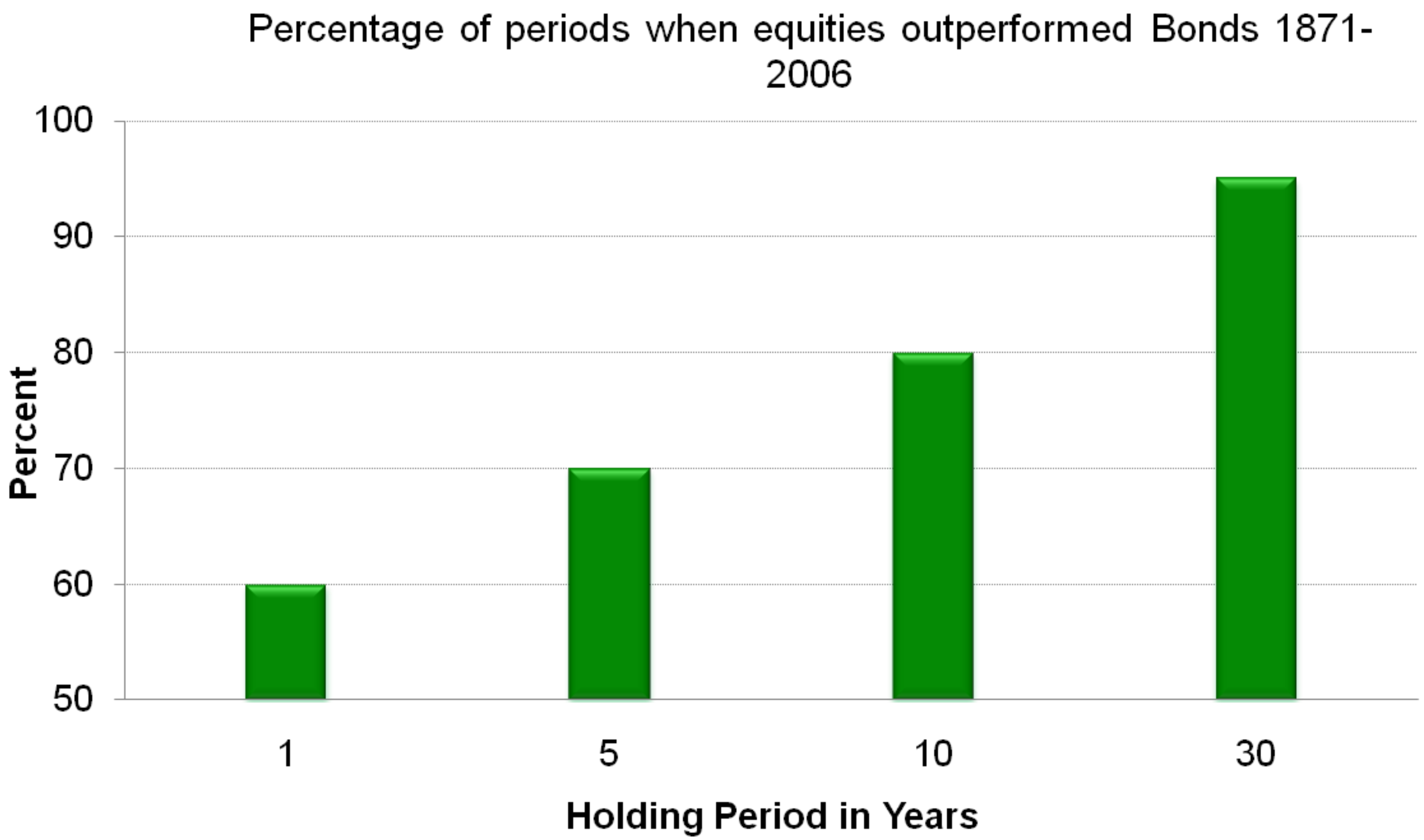
Source: Capital Group, based on an exhibit from Russell Investments. The demographic assumptions, returns and ending balances are hypothetical and provided for illustrative purposes only, and are not intended to provide any assurance or promise of actual returns and outcomes. Returns will be affected by the management of the investments and any adjustments to the assumed contribution rates, salary or other participant demographic information. The additional years of retirement spending are intended to represent a conservative measure. Actual results may be higher or lower than those shown. Past results are not predictive of results in future periods.

Stock Market Basics

Stocks Outperformed



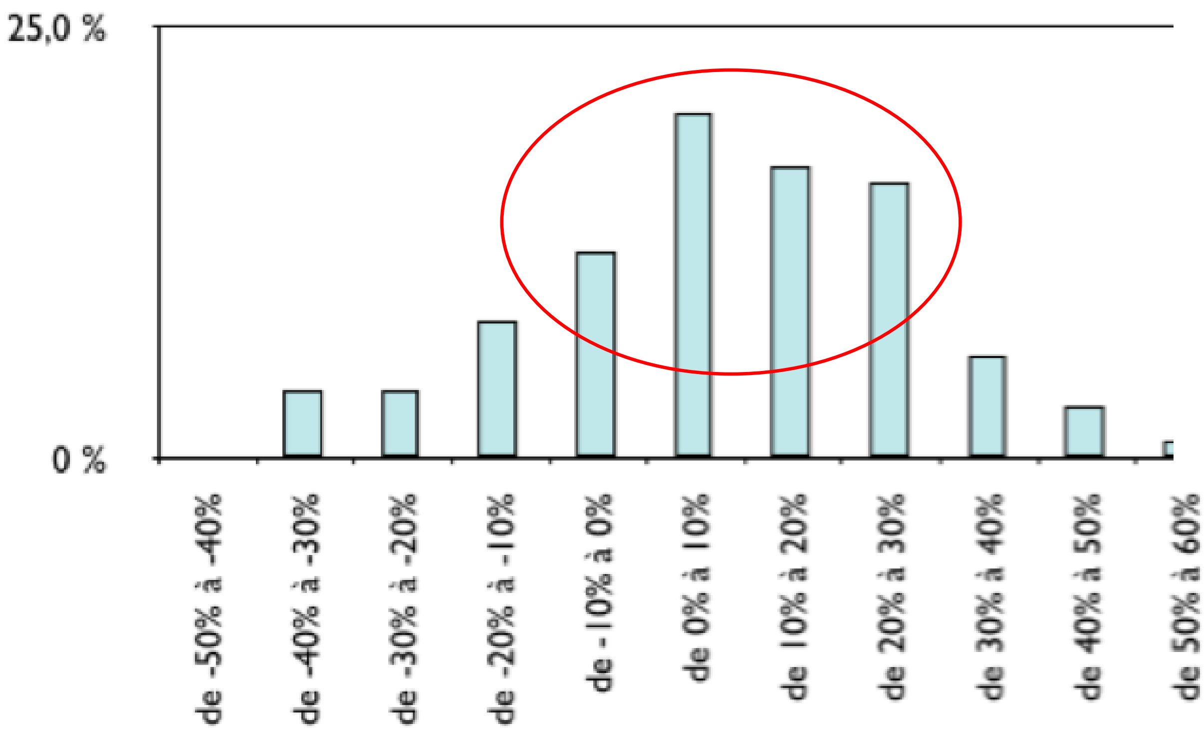
Stocks Outperformed…In the Long Run

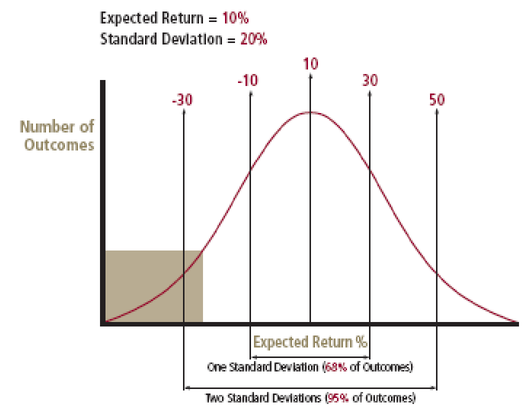


95% of the time, stocks outperformed on a 30 years period basis

But Stocks are More Volatile

~70+% of the time, stock fluctuate between -10% and 30% in one year





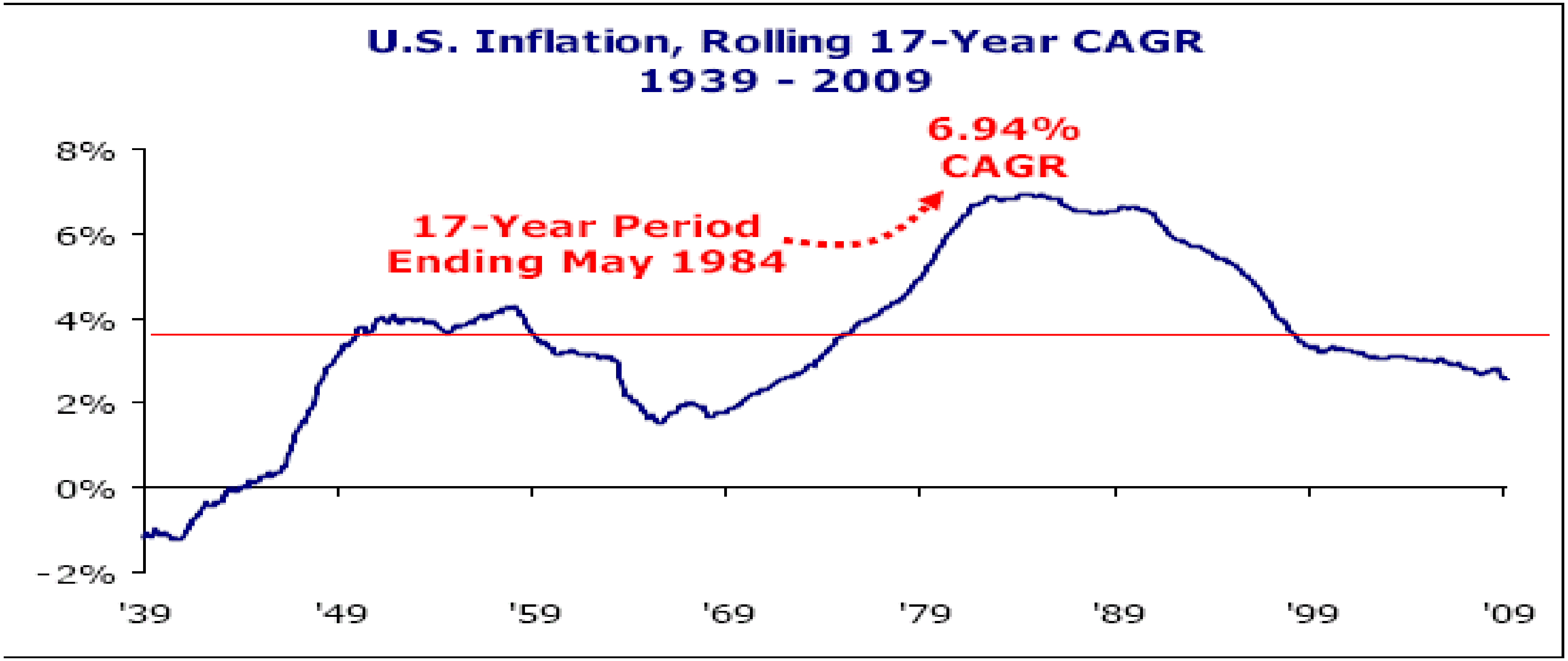
Annual performance since 1872

In the Long Run, Stocks were Less Risky

Probability of Negative Absolute Return for Select Asset Classes (Rolling Total Returns, December 1969 through 2008)

	1 Month	1 Year	5 Years	10 Years
S&P 500	38.9%	23.8%	11.1%	0.8%
L/T Treasury Bonds	39.4%	17.7%	1.7%	0.0%
T-Bills	0.2%	0.0%	0.0%	0.0%
Gold	47.1%	39.3%	33.4%	36.6%
Real Estate	37.4%	25.2%	3.9%	0.0%

Stocks are Necessary to Offset Inflation



The S&P 500 index returns have exceeded the inflation rate during every rolling 20-year period since 1926. Bonds trailed inflation in 16 of those 64 periods, while cash lagged behind inflation in 20 of the 64 periods (Ibbotson).

→The best way to protect against down markets while maintaining a potential for real growth (adjusted for inflation) is to have a diversified portfolio that includes stocks, bonds and cash.

Buy and Hold vs. Market Timing

Returns of the S&P 500

Performance of a $10,000 investment between January 1, 1997 and December 30, 2016

On August 24, 2015 the Dow Jones Industrial Average closed down 588 pts. On August 26, 2015 it closed up 609 pts.

This chart is for illustrative purposes only and does not represent the performance of any investment or group of investments.

Source: J.P. Morgan Asset Management analysis using data from Bloomberg. Returns are based on the S&P 500 Total Return Index, an unmanaged, capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Past performance is not indicative of future returns. An individual cannot invest directly in an index. Data as of December 30, 2016.

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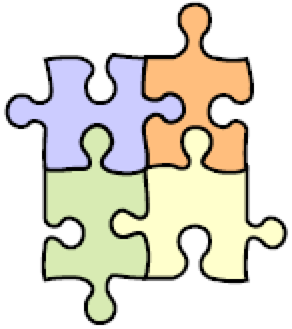
Conclusions

- The average investor has underperformed by 5%
- The average mutual fund has underperformed by 3%
- 3% additional return per year is equivalent to 130+% in 30 years
- Selecting a good mutual fund is hard
- Asset Allocation drives performance
- Diversification and Rebalancing are very important
- Stocks outperformed on the long run
- Market Timing is not a good strategy



Pay Attention to What People Do… Not What they Say…

"Who the hell wants to hear actors talk?"

H.M. Warner, Warner Bros., 1927

"I think there is a world market for maybe 5 computers."

Thomas Watson, Chairman of IBM, 1935

"TV won't be able to hold on to any market. People will soon get tired of staring at a plywood box every night."

Darry Zanuck, 20th Century Fox, 1946

"No one will need more than 637kb of memory, 640 kb ought to be enough for anybody."

Bill Gates, Microsoft, 1981

Who We Are

Our Experts

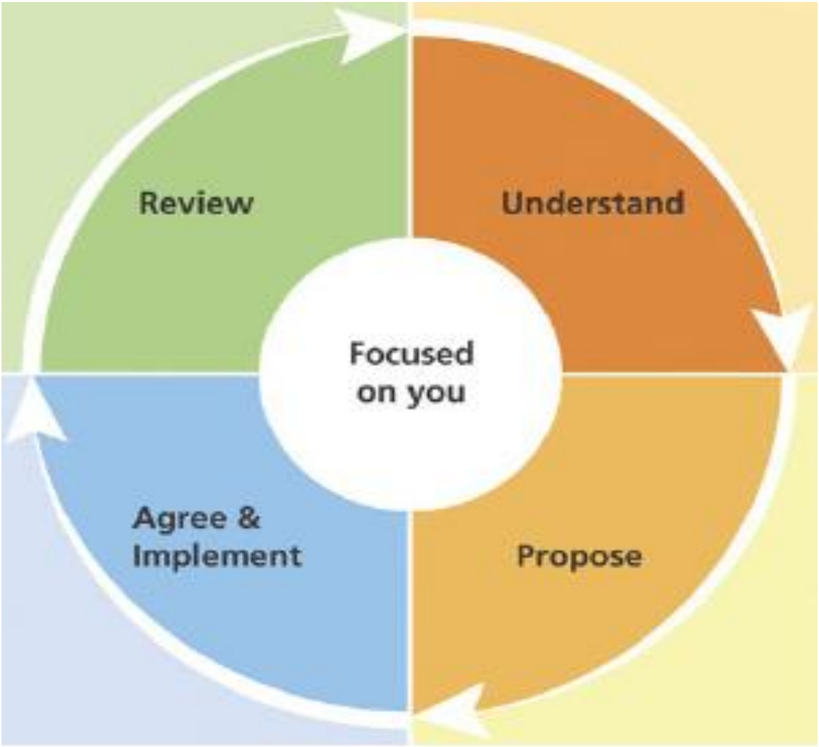
Patrick Bourbon – CFA, Founder

Patrick is knowledgeable in preserving and growing your wealth, risk management, asset allocation, and mutual funds selection.

- 20 years investment experience
- Managed $2 billion for 70,000+ people
- UBS Global Asset Management (2000-2010)
- Founder Bourbon Financial Management (2009)
- Chartered Financial Analyst (CFA - 2003)
- Master of Science in Finance (Chicago)
- Master of Engineering (Paris)

BFM Helps You Meet Your Goals Thanks To:

- Independence
- Diversification
- Rebalancing
- Fund Selection
- Education



BFM enables our clients to increase their wealth through independent financial advice (we do not sell product and we have no commissions since we are fee only) and balanced long-term investments.

Key Reason to Choose BFM

6 KEY REASONS TO CHOOSE BFM

1. Affordable and straightforward flat fee
2. Fee only - No commission
3. No minimum assets
4. You keep full control of your accounts
5. Disciplined investment process
6. Independent fiduciary

BFM has Fiduciary Duty

- Act prudently and in the best interests of clients
- Avoid conflicts of interest, or ensure they are properly disclosed
- Treat all clients in a fair and equitable manner
- Always place the interests of clients ahead of its own interests

More on BFM

- Manage Globally Diversified Balanced Portfolio
- Our Core Beliefs:
    - Asset Allocation is the most important determinant of performance
    - Globally diversified portfolio reduces risk
    - A disciplined investment process is critical
    - Owning our firm allows us to focus solely on our client interests
- Our Investment Advisory Committee Provides Oversight to the Investment Process and Reviews the Long Term Strategy
- Portfolios are Monitored at least Annually for Drift from Strategy

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