

Investing 101:

A tutorial for beginning investors

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Investment Fundamentals

WHAT IS INVESTING?

Speculating?

Saving?



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graph TD; A[Speculating?] --> D[Investing—A carefully planned and prepared approach to managing and accumulating money.]; B[Saving?] --> D;
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Investing—A carefully planned and prepared approach to managing and accumulating money.

Investment Fundamentals

IDENTIFYING GOALS & TIME HORIZONS



- Investment Goals
 - Retirement
 - Education
 - Special purchase
 - Financial security
- Short-term goals vs. long-term goals
- In general, the longer your investment horizon, the more risks you can afford to take

Investment Fundamentals

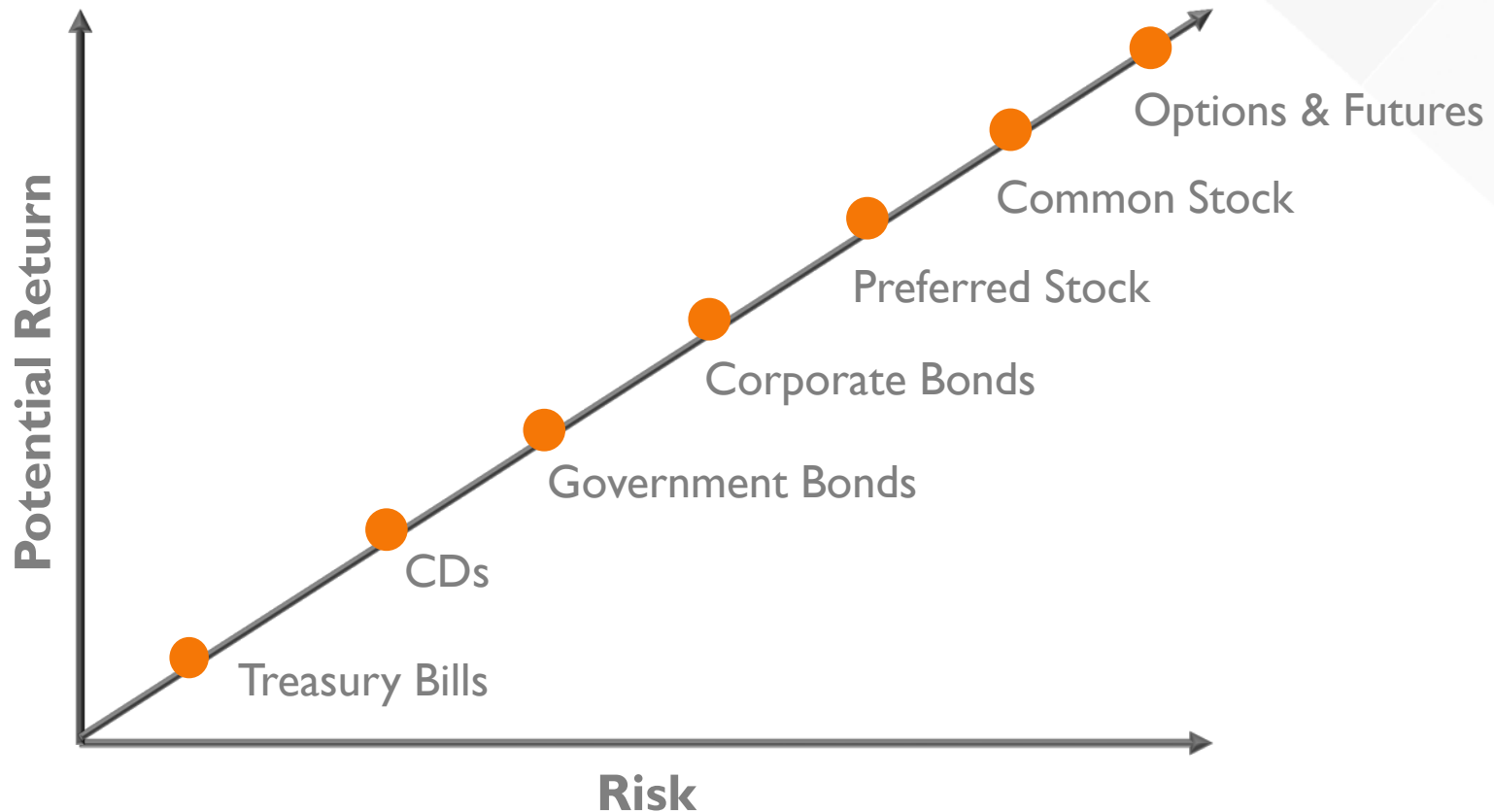
RISK TOLERANCE

- Comfort with the potential of losing something of value
- Personal tolerance for risk
 - Aggressive
 - Moderate
 - Conservative



Investment Fundamentals

RELATIONSHIP BETWEEN RISK & RETURN



Consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The investment return and principal value of an investment will fluctuate and an investor's shares, when redeemed, may be worth more or less than their original cost.

Investment Options

TYPES OF INVESTMENTS

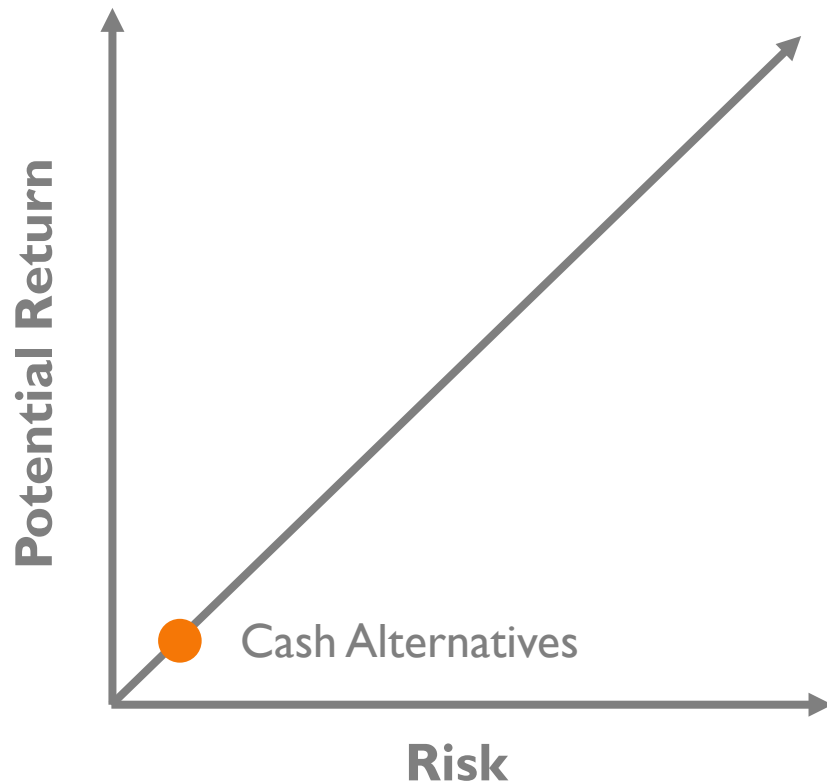


- Cash alternatives
- Bonds
- Stocks
- Other investments
- Funds

401(k) plans and IRAs are not investments – they are tax-advantaged vehicles that hold individual investments

Investment Options

CASH ALTERNATIVES



- Low risk, short term, relatively liquid
- Examples of cash alternatives include:
 - Certificates of Deposit (CDs)
 - Money market deposit accounts
 - Money market mutual funds
 - U.S. Treasury Bills (T-Bills)

An investment in a Money Market Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the Fund.

Investment Options

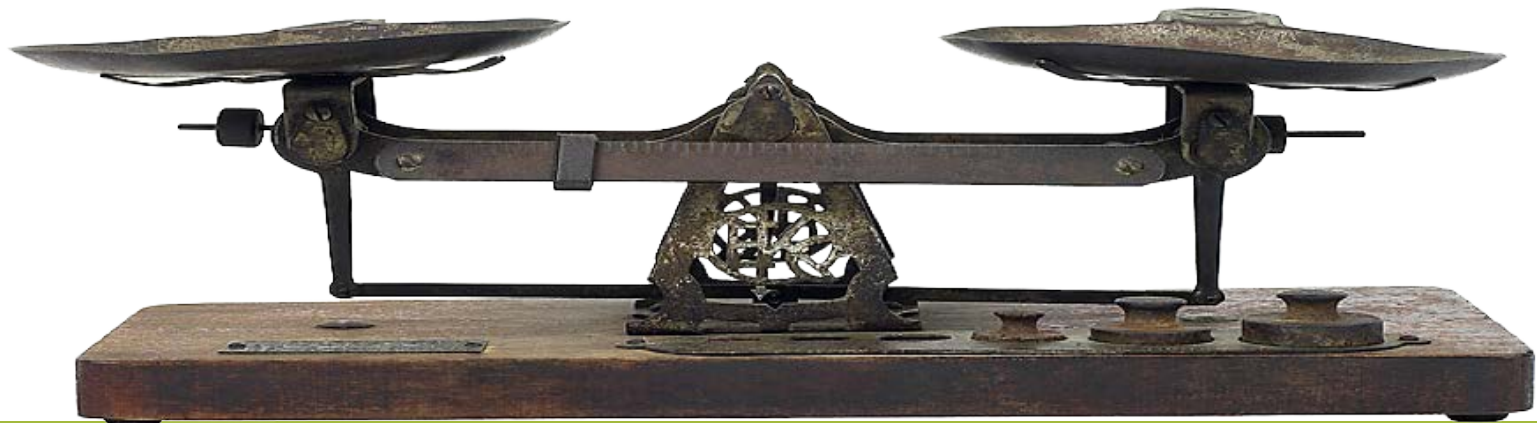
CASH ALTERNATIVES

Advantages:

- Predictable earnings
- Highly liquid
- Little risk to principal

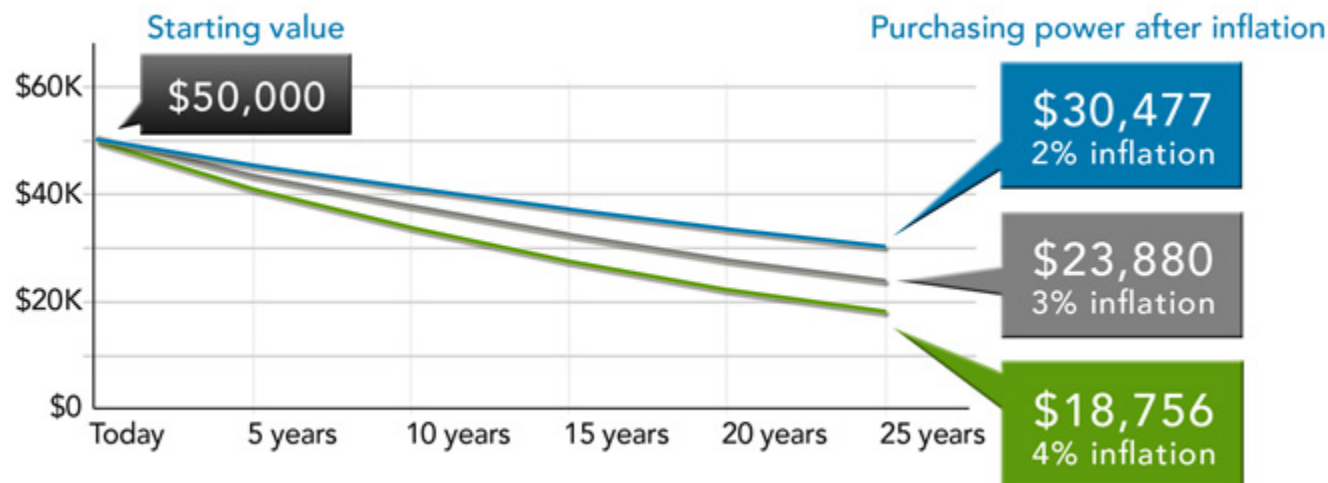
Disadvantages:

- Relatively low returns
- May not keep up with inflation



The Effect of Inflation

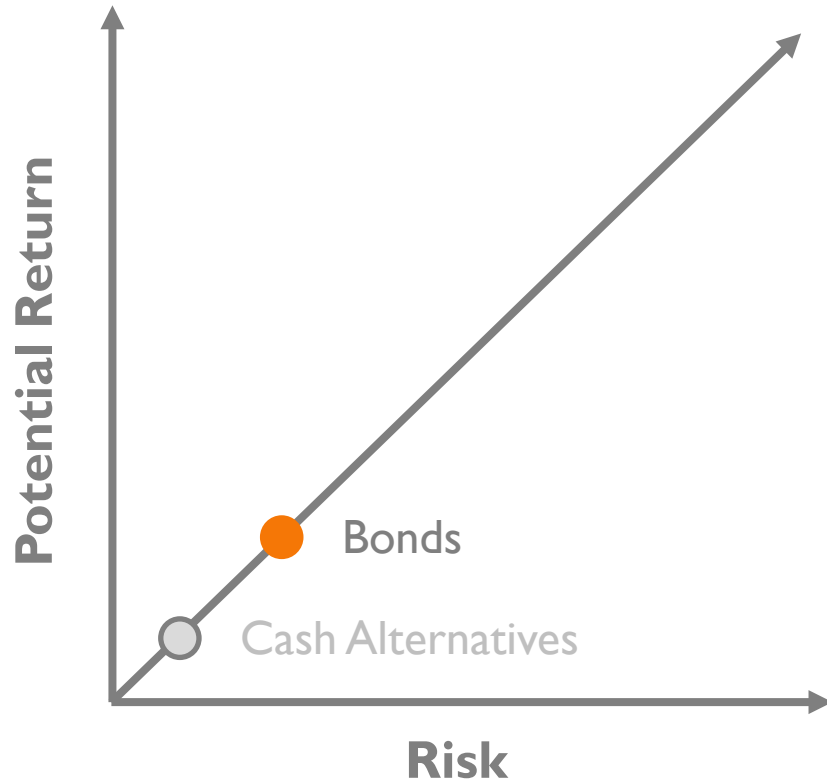
Purchasing Power of \$50,000 at Various Annual Inflation Rates



*Source: Fidelity Investments, Five ways to protect your retirement income

Investment Options

BONDS



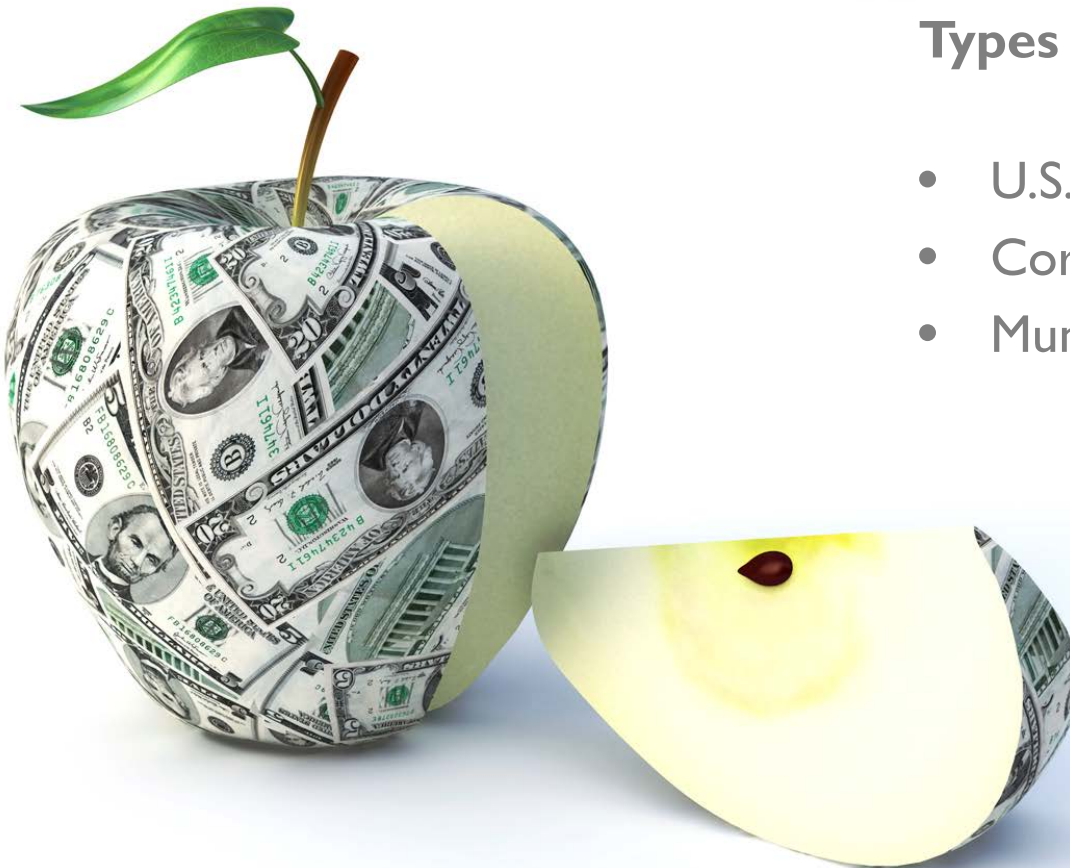
- Loans to a government or corporation
- Interest typically paid at regular intervals
- Can be traded like other securities
- Value fluctuates

Investment Options

BONDS

Types of bonds include:

- U.S. government securities
- Corporate bonds
- Municipal bonds



Investment Options

BONDS



Advantages:

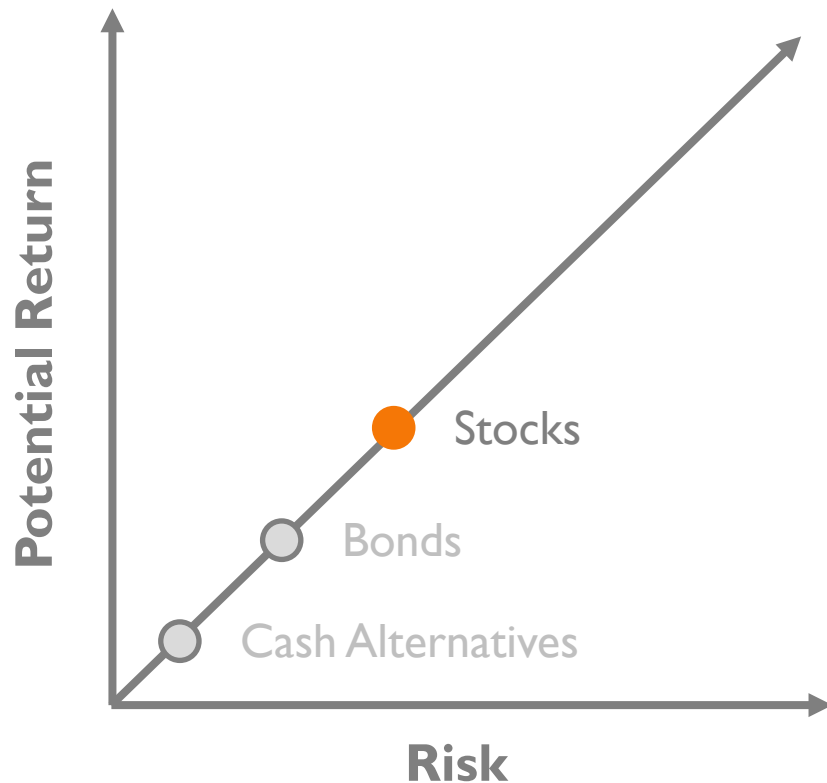
- Steady and predictable stream of income
- Income typically higher than cash alternatives
- Relatively lower-risk (compared to options such as stock)
- Low correlation to stock market

Disadvantages:

- Risk of default
- Value of bond will fluctuate with interest rates
- Lower risk means lower potential returns (than stock, for example)

Investment Options

STOCKS



- Shares of stock represent an ownership position in a business
- Percentage of ownership determines your share of profit / loss
- Earnings may be distributed as dividends
- Shares of stock can be sold for gain or loss

Investment Options

STOCKS



Advantages:

- Historically, have provided highest long-term total returns
- Ownership rights
- Can provide income through dividends as well as capital appreciation
- Easy to buy and sell

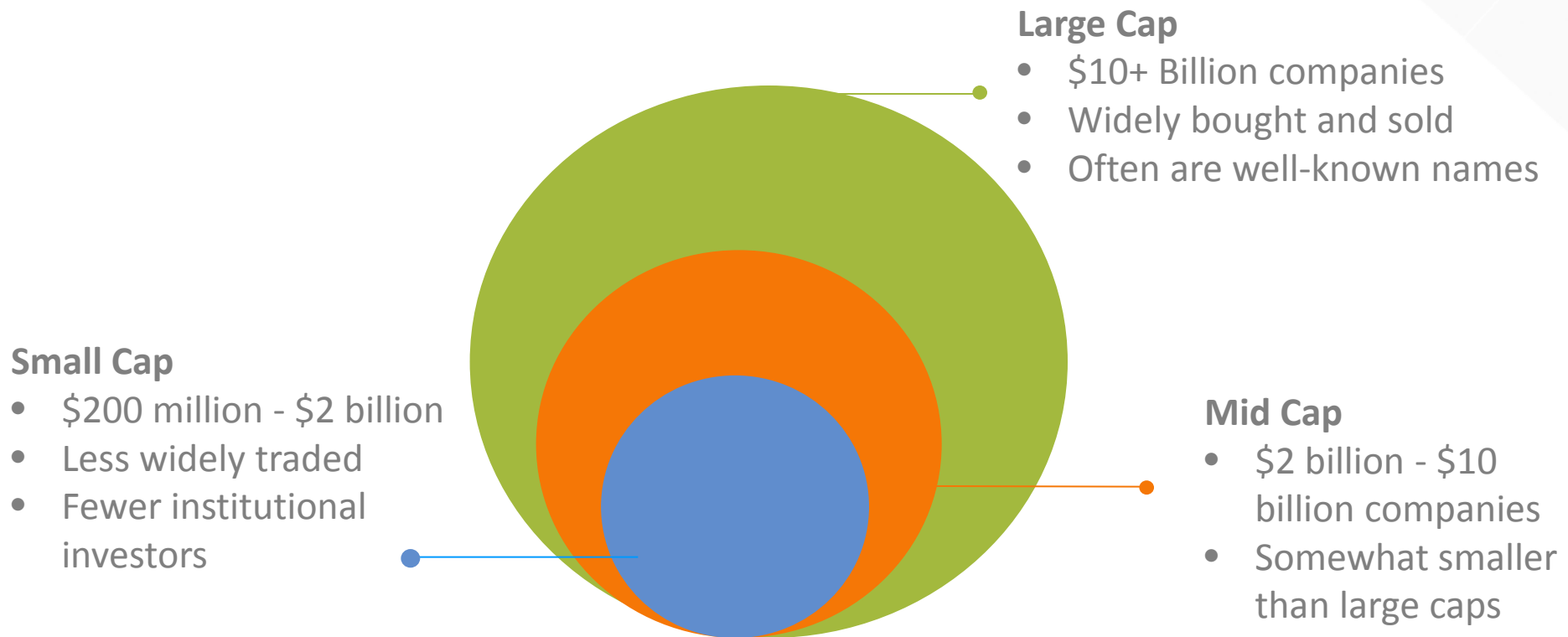
Disadvantages:

- Poor company performance affects dividends / value of shares
- Subject to market volatility
- Greater risk to principal
- May not be appropriate for short-term

Investment Options

STOCKS

Different Categories of Stocks



Investment Options

MUTUAL FUNDS

Your money is pooled
with that of other
investors

Fund invests dollars
according to stated
investment strategy

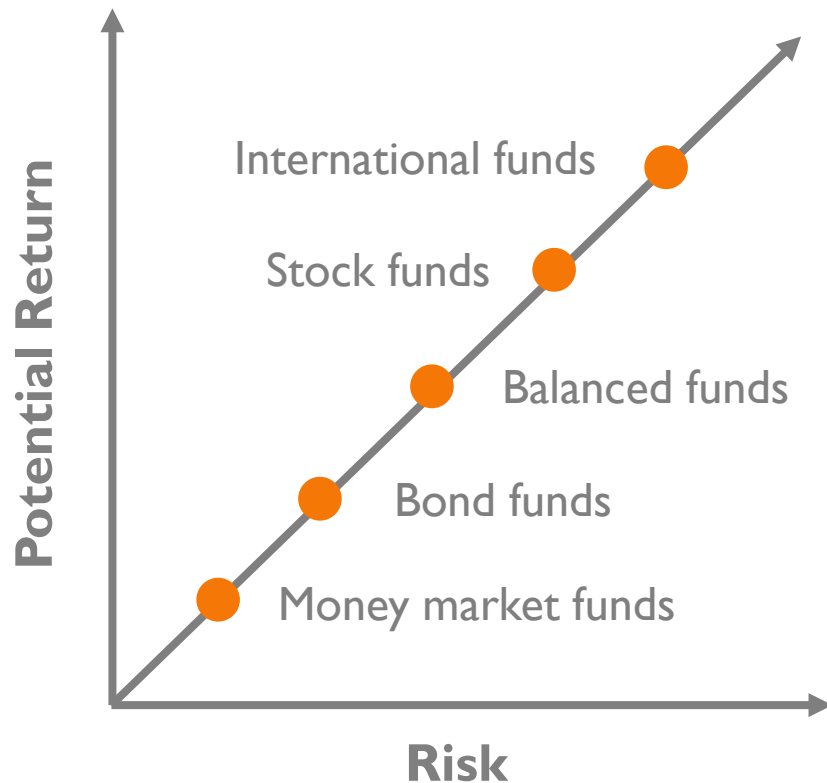
You own a portion of
the securities held by the
fund (instant
diversification)



Diversification neither assures a profit nor guarantees against a loss in a declining market.

Investment Options

MUTUAL FUNDS



- Three major investment categories:
 - Money market funds
 - Bond funds
 - Stock funds
- Mutual funds fall all along the risk/return spectrum (e.g., balanced funds, international funds)
- Active vs. passive management

Investment Options

MUTUAL FUNDS



Advantages:

- Diversification
- Professional management
- Small investment amounts depending on fund minimums

Disadvantages:

- Value of shares can fluctuate daily
- Portion of fund dollars may be tied up for liquidity needs
- Potential tax inefficiency
- Mutual fund fees and expenses

Diversification neither assures a profit nor guarantees against a loss in a declining market.

Investment Options

EXCHANGE-TRADE FUNDS (ETFs)

- Most ETFs are based on an index
- Passive management may lower fund costs
- Can be traded throughout the day, bought on margin, and shorted, like stocks
- May provide tax efficiencies
- Carry potential similar risks such as interest rate risk, industry risk etc.



Investment Options

OTHER INVESTMENTS

- Real estate
- Stock options
- Futures, and commodities
- Collectibles



Active vs. Passive Management



ACTIVE



Advantages:

- Expert analysis
- Defensive measures

Disadvantages:

- Higher expense ratios



PASSIVE



Advantages:

- Low expense ratios
- Easy way to get broad exposure

Disadvantages:

- Little control

Appreciation vs. Income

Capital Appreciation

A rise in the value of an asset based on a rise in market price

Interest

Paid from Bonds and is the cost to borrowing money

Dividends

Distribution of a corporation's earnings to its stockholders



Asset Allocation

CONSIDERATIONS



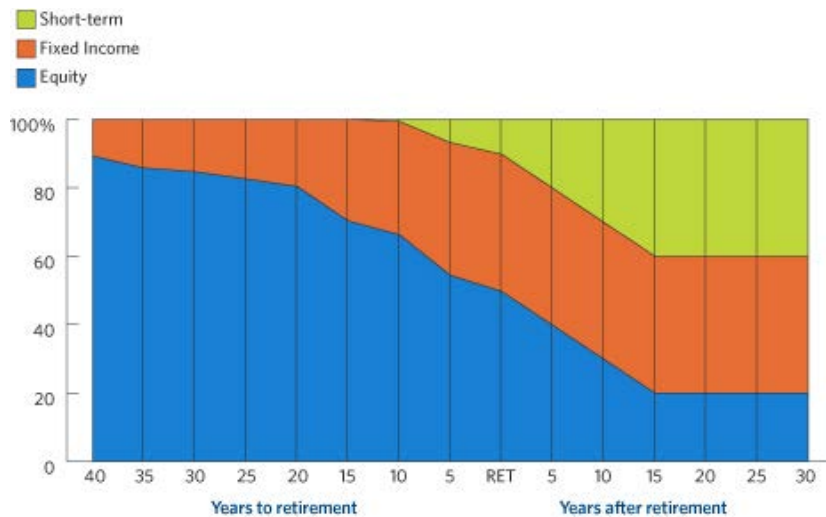
Factors:

- Diversification
- Risk tolerance
- Timeframes
- Personal financial situation
- Liquidity needs

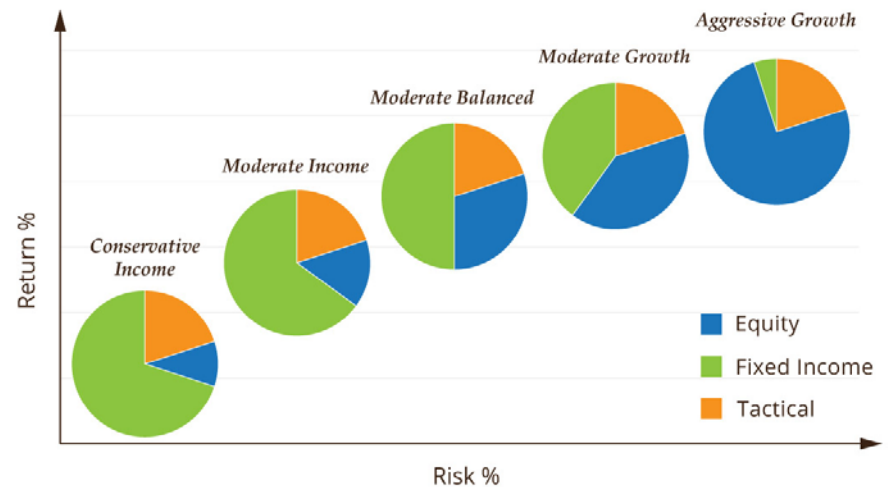
Diversification neither assures a profit nor guarantees against a loss in a declining market.

Decisions made easy!

1. WHAT IS YOUR TIME HORIZON?



2. WHAT IS YOUR RISK TOLERANCE?



There are no assurances that any strategy will meet its objective.



The Role of a Financial Professional

- Help you determine your investment goals, timelines, and risk tolerance
- Create an asset allocation model
- Select specific investments
- Manage, monitor, and modify your portfolio

Questions?

Feel free to contact us directly at:



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