Investing Basics

Five Steps to Building a Disciplined Investment Strategy

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Volatility is a natural part of investing.

How can you feel more confident in your investment strategy?
Investing Basics

Step 1: Goal Setting
Step 2: Risk and Reward
Step 3: Diversification
Step 4: Discipline
Step 5: Momentum

Investing isn’t difficult if you understand the fundamentals.
A Focus on Core Values

- Expert guidance
- Asset allocation
- Investing fundamentals

Please remember that no investment strategy can guarantee a profit or protect against a loss.
Market Declines Are to Be Expected

Risk of Stock Market Decline Over Time 1926-2021

The chart is for illustrative purposes only and not intended as a recommendation. Past performance is not a guarantee of future results. All investments carry risk, including potential loss of principal, and no investment strategy can guarantee a profit or completely protect against loss. Indexes are unmanaged and cannot be invested in directly.

*Source: 2022 Morningstar Direct. Stocks are represented by the IA S&P Large Stock TR Index. All returns are from 1926 to 2021. Positive 74% of the time*
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*Source: 2022 Morningstar Direct. Stocks are represented by the IA S&P US Large Stock TR Index. All returns are from 1926 to 2021.

Avoid making emotional decisions.
Step 1: Setting Goals
Be Specific

Goal:
• Buy a family vacation home

Goal:
• Buy a family vacation home with:
  • Beach access
  • 2 bedrooms
  • Enclosed porch
  • Dock for a pontoon boat
  • Within 3 hours of home
  • Save $20,000 for down payment
  • Purchase within 2 years

Identifying your goals brings your future into the present.
Goal Setting

- Measurable
- Time Frame
- Resources Defined
- Action Steps

Your goals will change over time.
Step 2: Risk and Reward
A Strong Foundation: Risk Management

Protect yourself against the unexpected:

• Auto accidents
• House fire or flood
• Injury and illness
• Disability
• Long-term care needs
• Death
What’s Your Tolerance for Risk?

- Investment time frame
- Withdrawal time frame
- Stable assets
- Personal liquidity
- Income stability

Understanding your Personal Investor Profile will increase your confidence in evaluating risks in your portfolio.
Take a Long-Term View

Stock Market Performance By Decade

- Since 1950, the stock market had overall positive annualized returns in every decade but one.
- While volatility occurs in the short term, staying invested over multiple market cycles helps reduce the risk of loss over the long run.

Stocks historically have provided positive returns over the long term.
Step 3: Diversification
Develop a Diversified Investment Program

- Personal goals
- Risk tolerance
- Time frame
- Investment options

Diversification is the key to a sound investment strategy.

No investment strategy can guarantee a profit or protect against loss.
Different asset types react differently to changes in the market.

No investment strategy can guarantee a profit or protect against loss.
Asset Allocation Models

The goal of asset allocation is to help investors balance expected risks with expected returns.

There is no guarantee that any of the portfolios or models in a product will meet their stated goals or investment objectives. Investments are subject to market risk and loss of principal. The investment return and principal value of an investment will fluctuate and, when redeemed, may be worth more or less than their original cost. The portfolios represented on the Risk and Return Relationship graph are not based on the actual investment experience or portfolio results of any client. No investment strategy can guarantee a profit or protect against loss.

Efficient frontier illustration created by the Northwestern Mutual Wealth Management Company, a subsidiary of Northwestern Mutual.
Resist the Temptation of Timing the Market

Can you predict next year’s winner?

* Compounded returns are measured by the geometric mean of a given portfolio, which takes into account the sequence of returns over a given period of time and more accurately shows the portfolio’s performance over that period of time, as compared to a simple average.

** Risk is represented by Standard Deviation, which is the measure of total volatility in a portfolio. It shows how widely a portfolio’s returns have varied around the average over a period of time. Standard deviations on this chart were calculated using monthly returns.

Source: 2022 Morningstar

This chart is for illustrative purposes only and not indicative of any investment. The data assumes reinvestment of all income and does not account for taxes or transactions costs. This chart is based upon past index performance and is not indicative of future results. Indexes are unmanaged and cannot be invested in directly. Diversification does not guarantee a profit or protect against a loss. Note that the diversified portfolio’s assets were rebalanced annually in order to maintain the designated allocations throughout the period.
Step 4: Discipline
Steady as You Go

The Risk of Market Timing – Missing the Best Days in the Market

Investors who attempt to time the market run the risk of missing periods of exceptional returns.

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Give It Time

The Power of Compounding

Let compound interest work in your favor by investing early. With compounding returns, your initial investment will be earning money as well as the prior earnings kept in the account.

To Accumulate $1 Million by Age 65

- **Age 25 - 65**: $381/mo | $4,572/yr
  - Total growth: $817,120
  - Total contribution: $182,880

- **Age 35 - 65**: $820/mo | $9,840/yr
  - Total growth: $704,800
  - Total contribution: $295,200

- **Age 45 - 65**: $1,920/mo | $23,040/yr
  - Total growth: $539,200
  - Total contribution: $460,800

- **Age 55 - 65**: $5,778/mo | $69,336/yr
  - Total growth: $306,640
  - Total contribution: $693,360

The sooner you start, the harder compounding can work for you.

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. Returns and principal invested in stocks are not guaranteed. The data does not account for taxes or transaction costs.
Step 5: Momentum
Let Your Progress Build on Itself

Exercise Your Investments

Reinvesting is using the dividends, interest and capital gains earned from an investment to buy additional shares or units.
Power of Reinvesting – 2002-2021

Reinvesting can help build the value of your portfolio even faster.

Stocks are represented by the Ibbotson® Large Company Stock Index. Bonds are represented by the Ibbotson U.S. Intermediate-Term Government Bond Index. An investment cannot be made directly in an index. With fixed income securities, such as bonds, interest rates and bond prices tend to move in opposite directions. When interest rates fall, bond prices typically rise; and conversely, when interest rates rise, bond prices typically fall. Bond and bond fund investors should carefully consider risks such as: interest rate risk, credit risk, liquidity risk and inflation risk before investing in a particular bond or bond fund. Past performance is no guarantee of future results. Hypothetical value of $1,000 invested at the beginning of 2002. Data does not account for taxes or transaction costs. This is for illustrative purposes only and not indicative of any investment. © 2022 Morningstar Direct. All Rights Reserved.
Steps to Investing

**Step: 1**  
*Set your goals:* Be specific.

**Step: 2**  
*Understand risk & reward:* Protect yourself against risk and determine your risk tolerance.

**Step: 3**  
*Diversification:* Use the principles of asset allocation to develop your strategy.

**Step: 4**  
*Discipline:* Give it time.

**Step: 5**  
*Momentum:* Let your progress build on itself.
The Value of Professional Guidance

- Customized investment plan
- An objective perspective
- Discipline to move forward

A trusted guide can lead the way to a sound investment program.
We’ve been helping clients achieve financial security for 165 years

THE NORTHWESTERN MUTUAL DIFFERENCE

A++

AAA, Aaa, and AA+ - the highest financial strength ratings of any life insurer from all four major credit rating agencies¹

Top10

 Ranked among the top U.S. Independent Broker-Dealer²

97%

of our policyowners stay with us year over year³

¹Northwestern Mutual continues to have the highest financial strength ratings awarded to any U.S. life insurer by all four of the major rating agencies: A.M. Best Company, A++ (highest), June 2022; Fitch Ratings, AAA (highest), July 2022; Moody’s Investors Service, Aaa (highest), May 2022; S&P Global Ratings, AA+ (second highest), July 2022. Third-party ratings are subject to change. Ratings are for The Northwestern Mutual Life Insurance Company and Northwestern Long Term Care Insurance Company.


³Loyalty is based on Northwestern Mutual client data. Ranking for Northwestern Mutual Investment Services, LLC. Measured by 2020 Revenue.
Our Commitment

It is our mission to provide expert guidance to help you create a lifetime of financial security.
Any questions?
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Important Disclosures

Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns. Returns represent past performance, are not a guarantee of future performance and are not indicative of any specific investment. No investment strategy can guarantee a profit or protect against a loss.

Although stocks have historically outperformed bonds, they also have historically been more volatile. Investors should carefully consider their ability to invest during volatile periods in the market. The securities of small capitalization companies are subject to higher volatility than larger, more established companies and may be less liquid. Investors should be aware of the risks of investments in foreign securities, particularly investments in securities of companies in developing nations. These include the risks of currency fluctuation, of political and economic instability and of less well-developed government supervision and regulation of business and industry practices, as well as differences in accounting standards.

With fixed income securities, such as bonds, interest rates and bond prices tend to move in opposite directions. When interest rates fall, bond prices typically rise; and conversely when interest rates rise, bond prices typically fall. This also holds true for bond mutual funds. When interest rates are at low levels, there is risk that a sustained rise in interest rates may cause losses to the price of bonds or market value of bond funds that you own. At maturity, however, the issuer of the bond is obligated to return the principal to the investor. The longer the maturity of a bond or of bonds held in a bond fund, the greater the degree of a price or market value change resulting from a change in interest rates (also known as duration risk). Bond funds continuously replace the bonds they hold as they mature and thus do not usually have maturity dates and are not obligated to return the investor’s principal. Additionally, high-yield bonds and bond funds that invest in high-yield bonds present greater credit risk than investment grade bonds. Bond and bond fund investors should carefully consider risks such as: interest rate risk, credit risk, liquidity risk and inflation risk before investing in a particular bond or bond fund.

Government bonds and Treasury bills are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than the other asset classes. Furthermore, small-company stocks are more volatile than large-company stocks and are subject to significant price fluctuations, business risks, and are thinly traded.

Commodity prices fluctuate more than other asset prices with the potential of large losses and may be affected by market events, weather, regulatory or political developments, worldwide competition and economic conditions. Investment can be made directly in physical assets or commodity-linked derivative instruments, such as commodity swap agreements or futures contracts.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in a money market fund.
## Index Definitions for Market Preference Slides

<table>
<thead>
<tr>
<th>Index</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.S. Large Cap S&amp;P 500 Index</strong></td>
<td>The S&amp;P 500 Index is a capitalization-weighted index of 500 stocks. The S&amp;P 500 Index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.</td>
</tr>
<tr>
<td><strong>U.S. Mid Cap S&amp;P 400 Index</strong></td>
<td>The S&amp;P MidCap 400 measures the performance of 400 mid-sized companies in the US, reflecting this market segment’s distinctive risk and return characteristics.</td>
</tr>
<tr>
<td><strong>U.S. Small Cap S&amp;P 600 Index</strong></td>
<td>The S&amp;P Small Cap 600 Index is a market-value weighted index that consists of 600 small-cap U.S. stocks chosen for market size, liquidity and industry group representation.</td>
</tr>
<tr>
<td><strong>Int’l Developed MSCI EAFE Index</strong></td>
<td>The MSCI EAFE Index (Europe, Australasia and Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. The MSCI EAFE Index consists of the following 21 developed market country indexes: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.</td>
</tr>
<tr>
<td><strong>Int’l Emerging MSCI EM Index</strong></td>
<td>The MSCI Emerging Markets (EM) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of Europe, the Middle East and Africa. The Index consists of the following emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Russia, Qatar, South Africa, Taiwan, Thailand, Turkey, United Arab Emirates, Argentina and Saudi Arabia.</td>
</tr>
<tr>
<td><strong>Real Estate DJ US Select REIT Index</strong></td>
<td>The Dow Jones U.S. Select Real Estate Securities Index (RESI), which represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded in the U.S. The indices are designed to serve as proxies for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate.</td>
</tr>
<tr>
<td><strong>Commodities BCOM Index</strong></td>
<td>The Bloomberg Commodity Index (BCOM) is a highly liquid, diversified and transparent benchmark for the global commodities market. It is calculated on an excess return basis and reflects commodity futures price movements.</td>
</tr>
<tr>
<td><strong>Fixed Income BarCap US Aggregate Bond Index</strong></td>
<td>The Barclays Capital U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.</td>
</tr>
<tr>
<td><strong>Cash Alternatives CITI T-Bill 3-Month Index</strong></td>
<td>Cash alternatives are represented by the Citigroup 3-month Treasury Bill Index, an unmanaged index representative of three-month Treasury bills.</td>
</tr>
<tr>
<td><strong>Diversified Portfolio</strong></td>
<td>A portfolio of all segments disclosed above, with the following weightings: 23% U.S. Large Cap; 6% U.S. Mid Cap; 3% U.S. Small Cap; 13% Int’l Developed; 6% Int’l Emerging; 4% Real Estate; 5% Commodities; 38% Fixed Income; 2% Cash Alternatives.</td>
</tr>
</tbody>
</table>
Thank You