Financial Management

About Me

Mark J. Clendenin,
Regional Business Development Manager, Ohio BWC
Managing Member, Resource Financial Group, LLC
Bachelor of Arts in Accounting from Walsh University
Advanced studies from Kent State University

- 11 years public and private accounting specializing in financial and compliance auditing.
- Ohio life and annuity licenses
- Series 6 and 63 Registered Securities Representative
- Ohio Business and Finance licensed teacher

More than 25 years of experience in both the public and private sectors encompassing nearly every aspect of the industry, including risk management, public and private accounting, manufacturing, construction, financial services, and teaching. Some of the companies that he has worked with include Nationwide Insurance, Coopers and Lybrand, Sterling Jewelers, The Home Depot, and Lincoln Financial Group.
He has been a guest speaker throughout Northeast Ohio to groups that include The Ohio Society of CPA's, The Ohio Mayor's Conference, Rotary International, Chamber of Commerce, area Safety Councils, The Ohio Safety Congress, and other civic and professional organizations. Mark is an active member in a number of organizations, including The Rotary Club of Jackson Township, Jackson Belden Chamber of Commerce, Habitat for Humanity, and the Walsh University Alumni Board.

Intro to Financial Management

- We live in the richest country the world has ever known
  - What about Social Security when you retire?
  - What about your medical bills after retirement?
  - Who will take care of you?

Yet, in our country…

- Nearly 10% of the population receives food stamps.
- 1 of 6 Americans receive Social Security Checks monthly.
- According to the Census Bureau, 40% of the children born today are born out of wedlock.
- Each child born in America starts out $40,000 in debt.

Intro to Financial Management

- Life is about choices
- You can choose to become a millionaire

- Millionaire Defined
- “People who are financially able to take care of themselves throughout their adult lives without the help of government programs such as welfare, Medicare, and Social Security”.

Intro to Financial Management

- The Nightingale/Conant Institute Report

The study concluded that of 100 people that begin working at age 25, by the time they reach age 65;

I. 1 will be rich
II. 4 will be financially independent
III. 45 will have some funds, but will need financial aid
IV. 50 will be essentially broke.

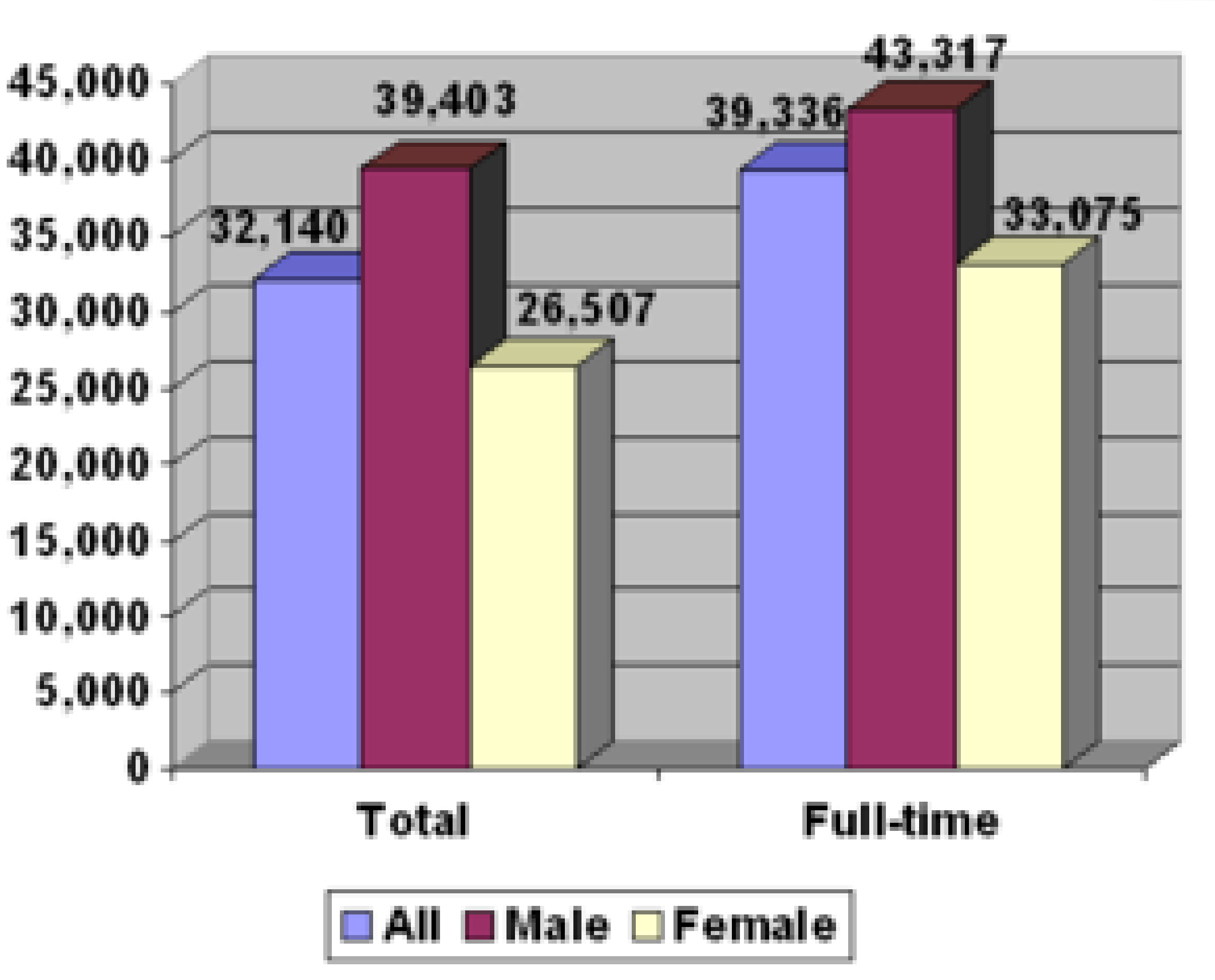
Intro to Financial Management

- So just think about this;
- In the richest country the world has ever known, after 40 years of working, only five percent of the people become financially independent, able to take care of themselves, the ones we defined as
- “Millionaires”

Who are the Millionaires?

- By our definition, "millionaires" are those who are financially independent, and are able to take care of themselves without financial help from outside sources.
  - They live in nice homes and drive nice cars
  - Many have never bought a new car
- Many do not earn over $100,000 per year
  - They tend to be compulsive savers and investors
  - 2/3rds of them are self employed
- They tend to enjoy life because they are doing something that they enjoy, and doing it well.
- Outside of a mortgage or business loans, they have no debt.
  - They are not credit card "junkies".
  - Frugality is the cornerstone of their wealth

U.S. Median Personal Income

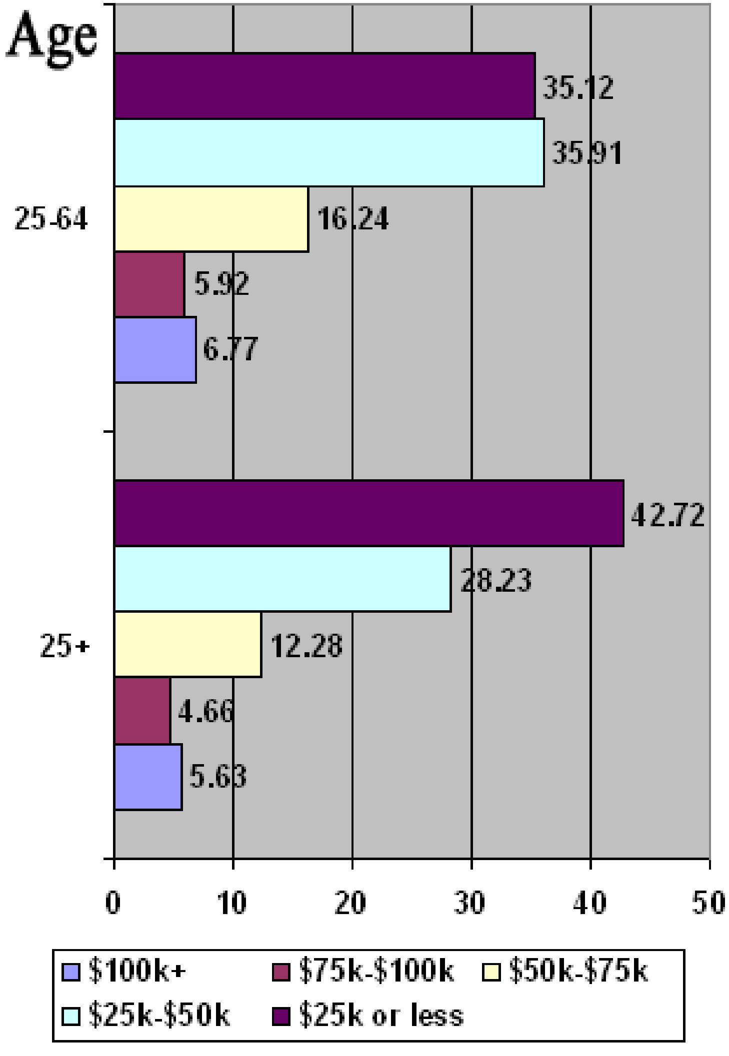


Household Income

- Median Annual Household Income
  - $52,100 as of June 2013
  - 6.1 percent below December 2007

- Households headed by people with only a high school diploma have seen their post-recession income decline by 9.3 percent, to $39,300.
- Households headed by people with an associate degree, declined by 8.6 percent, to $56,400.
- Households headed by people with a bachelor's degree or more, declined by 6.5 percent, to $84,700.

Who's Making What?



Income distribution

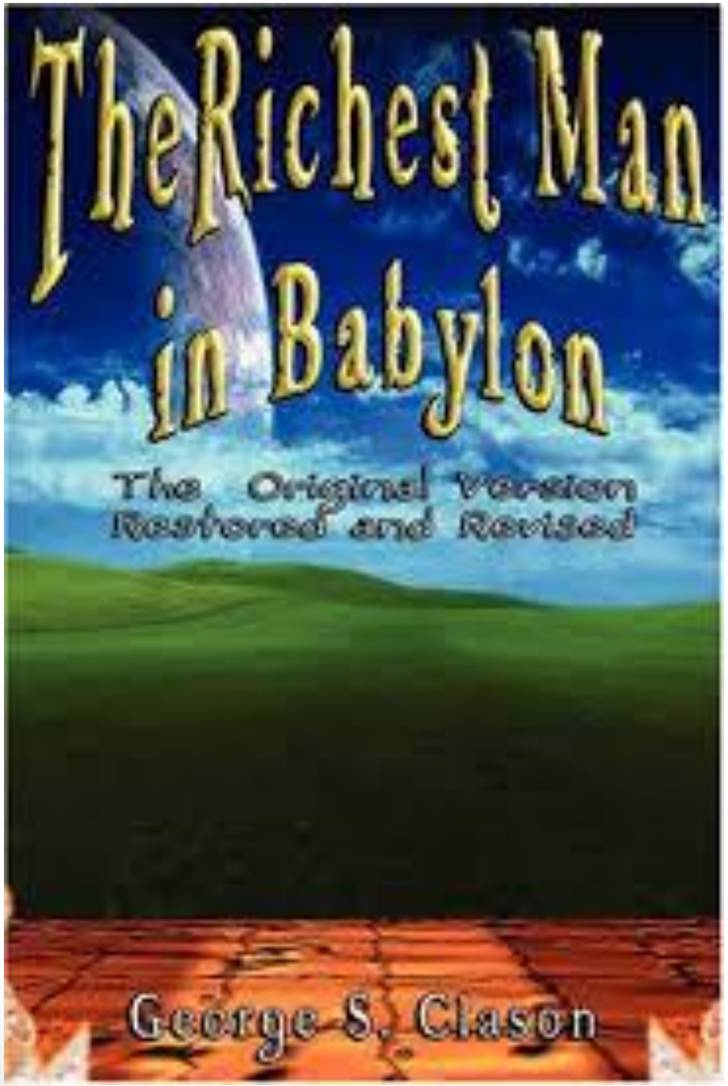
Of those individuals with income who were **older than 25 years of age, over 42% had incomes below $25,000.**

The top 10% had incomes exceeding $82,500 a year.

The distribution of income among individuals differs substantially from household incomes as **42% of all households had two or more income earners.**

As a result 20.5% of households have six figure incomes, even though **only 6.24% of Americans had incomes exceeding $100,000.**

The Richest Man in Babylon



Arkad's Statement to Subjects

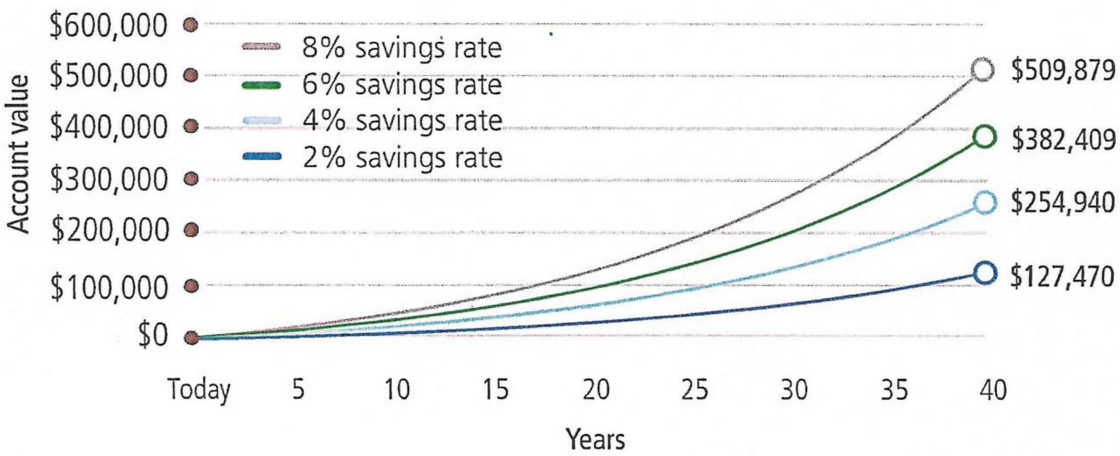
Thy First Remedy

- “For each ten coins put in, to spend but nine”.

Save at Least 10%

How much should I contribute?

Deciding on how much to contribute to your plan depends on many factors, including what you can afford and how long you have until retirement. Even a small amount, invested regularly, can add up to significant savings over the long term.

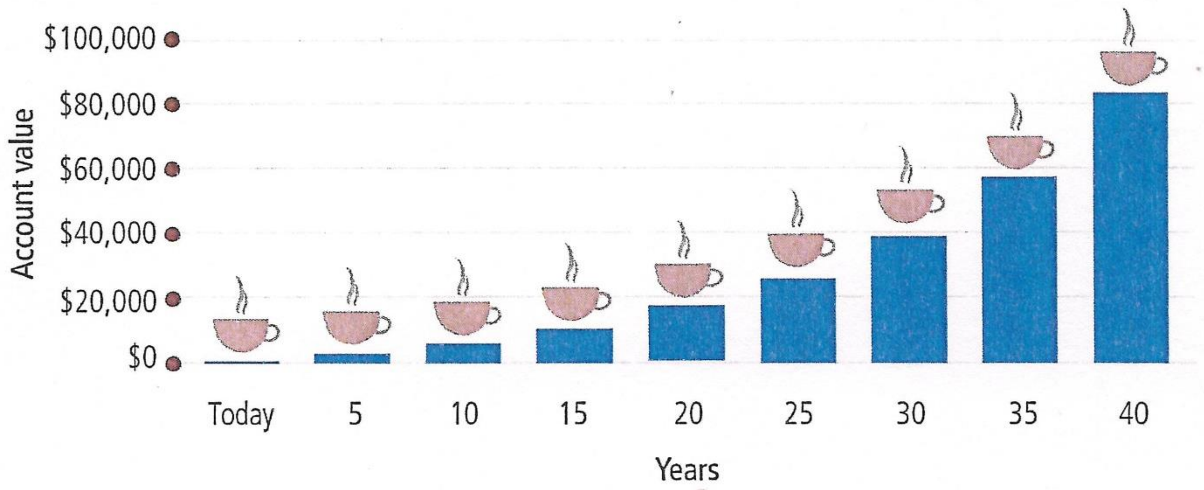


This graph assumes a $40,000 annual salary and a 6% annual return in a tax-deferred account. This hypothetical example is not indicative of any product or performance, and does not reflect any expense associated with investing. Taxes will be due upon distribution. It is possible to lose money investing in securities. Changes in tax rates and tax treatment of investment earnings may impact the comparative results. You should consider your personal investment horizon and income tax bracket, both current and anticipated, when making an investment decision as these may further impact the results of the comparison.

When To Begin

Begin today

Think you can't afford to start a retirement plan today? Consider this. If you were to commit just $10 a week — probably what you might spend on coffee each week — to your 403(b) plan, even small contributions can add up over time.



Assumes a $10/week contribution and a 6% annual return in a tax-deferred account. This hypothetical example is not indicative of any product or performance, and does not reflect any expense associated with investing. Taxes will be due upon distribution. It is possible to lose money investing in securities.

Thy Second Remedy

- "Budget thy expenses that thou mayest have coins to pay for thy necessities, to pay for thy enjoyments, and to gratify thy worthwhile desires without spending more than nine tenths of thy earnings".

Know Your Cost of Living

- Make a list of your mandatory monthly expenses so you understand where your money has to go. Things like, rent, utilities, transportation, groceries, parking, school supplies, debt repayment, and student or activity fees fall in this category. Once you know where your money has to go each month you'll be able to set up a discretionary fund and a savings plan.

Give Yourself an Allowance

- Put yourself on an allowance for things like entertainment, eating out, clothing, and special purchases. Stay on budget no matter how tight things get. It's never too early to start saving money. Even if it's only $20 a week try to put something aside in a savings account.

Organize Your Receipts

- Keep your bills, bank statements and receipts all in one place. Organize them by month and by category, for example; rent, bills, and expenses. Keep them in a safe place. Make sure to go over your bank statements carefully and keep all ATM receipts. Have your bank return cashed checks to you or at least ensure that you can see copies of all cashed checks online.

Become Frugal

- Look for creative ways to save money. Consider carpooling, public transit or enviro-friendly biking as a means of getting around. Bring lunches and snacks from home. Buy your text books and lab supplies second hand if possible. Instead of paying a tutor set up a peer study group in classes that you need extra help with.

Understand Your Debt Load

- Student loans aside there are other ways that students get in to debt. Credit card companies target cash strapped students, most of whom are inexperienced with unsecured debt.
- When handled responsibly credit cards can be good things to have. If you do any shopping on the Internet you will probably need to have a credit card. Many credit card companies offer theft and fraud protection. Read the fine print of your credit card agreement to find out if you recovered for these things.
- It's a good idea to have a credit card for emergencies or for major purchases like books or a bike but avoid using plastic for day-to-day spending or for entertainment.

Watch Out for Identity Theft

- You are never too young to fall victim to identity theft. In fact, young people with little or no credit history are good targets. Keep your personal information well guarded.
- Limit the information you post in your profiles on the Internet to first name and last initial, gender and general area of residence. Social networking sites have become havens for people looking to steal identities.
- Never leave ATM or debit receipts behind, always take them with you. Keep your credit card numbers private and only use them on web sites you know you can trust. Always shield your personal identity number (PIN) from prying eyes.

Credit and Debt

- We have been living in a competitive, “I need it now” consumption-oriented society
- Overspending and over-consuming have no social boundaries.
  - Rich/Poor
  - Skin color
  - Male/Female
  - Young/Old

- You must begin to manage your financial health now with a budget and discipline to avoid potential future financial disaster.

Credit and Debt

Good Debt versus Bad Debt

- Good Debt:
  - School Loan
  - Home Mortgage
  - Car Loan
- Bad Debt:
  - Special on-sale items
  - Incentives to open a consumer charge card
  - Car Loan

The Planning Process

Start from the end, then back to the beginning

- What are you hoping to accomplish
- What are your dreams and aspirations
- Are there charities you are close to
- What about children and grandchildren

Gather your documents

- Statements and balances
- Budgets
- Worksheets
- Estate Documents

Step 1

Assess Where You Are Today

Begin the financial planning process by setting aside a few hours to gather and organize your financial information.

Can you find all your information?

Do you have a current working budget?

Step 2

Decide where you want to be

What do you want for the future.

Step 3

How You’ll Get There

Three Factors

- Time
- Contributions
- Returns
  - Necessary Risk
  - Risk vs Reward
  - Tolerance
  - Recovery

Step 4

Adjusting your financial plan

- Job Change
- Marriage, Children, Divorce
- Death or Disability
- Retirement
- Inheritances

Monitoring your investments

Working with a financial advisor

Thy Third Remedy

- Put each coin to laboring that it may reproduce its kind even as the flocks of the field and help bring other income, a stream of wealth that shall flow constantly into thy purse”.

Understand Asset Classes

Why your asset class mix is critical.

Different asset classes have different risks and returns. Investing in a single asset class is risky when you consider that no one asset class has consistently outperformed on a regular basis. The most widely accepted way to help reduce the risk of investing is through diversification—spreading your money among a variety of investments, as opposed to just one. That's why it's critical to incorporate multiple asset classes into your portfolio.

The chart below shows that by combining stocks and bonds, you can get a mix that offers higher returns than bonds, with less risk than stocks alone. Blending asset classes in this way can help manage risk and smooth out the ride.

30-year annualized return 1981–2010

	Return	Risk (standard deviation)
STOCKS	**10.7%**	17.2%
BONDS	**8.9**	7.0
40% stocks / 60% bonds mix	**10.0**	9.0
50% stocks / 50% bonds mix	**10.2**	10.2
60% stocks / 40% bonds mix	**10.4**	11.5

Standard deviation is a statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. The greater the degree of dispersion, the greater the risk.

Bond investors should carefully consider risks such as interest rate, credit, repurchase and reverse repurchase transaction risks. Greater risk, such as increased volatility, limited liquidity, prepayment, non-payment and increased default risk, is inherent in portfolios that invest in high yield ("junk") bonds or mortgage backed securities, especially mortgage backed securities with exposure to sub-prime mortgages.

Although stocks have historically outperformed bonds, they have also historically been more volatile. Investors should carefully consider their ability to invest during volatile periods in the market.

Source: Stocks: S&P 500 Index. Bonds: Barclays Capital U.S. Aggregate Bond Index. Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

Multiple Investment Styles

What are "styles"?
Professional money managers use unique methodologies to decide which stocks to buy. These methods can generally be categorized into one of several broad investment styles, such as growth, value, market-oriented, large and small cap.

Growth:
These managers are primarily interested in a company's earnings. They focus on investing in companies they expect to exhibit profitability and shareholder earnings greater than their industry peers.

Value:
Value managers are most interested in buying a company's stock at a good price. They may purchase stocks of companies that are currently out of favor with the market, believing the stock is a good value for the price.

Large capitalization:
These managers seek to develop well-diversified portfolios with average growth and valuation characteristics similar to the broad market. Many managers seek to add value by emphasizing economic sectors they believe are undervalued.

Small capitalization:
These managers focus on smaller companies. Some of these companies are young and growing rapidly, while others are simply smaller businesses with long histories. These companies are characterized by low dividend yields and above-average volatility.

Market-oriented:
These managers select stocks representative of the broad equity market. While some market-oriented managers may take meaningful positions on growth or value stocks from time to time, these managers exhibit no strong consistent bias to either style.

Style leadership inevitably rotates over time.

Investment styles, such as growth, value, large and small cap, continually move in and out of favor with the market. The cycles are hard to predict because they don't rotate with any pattern. Investing in just one style can be risky. Blending styles can help manage risk and work toward more consistent returns. This way, your investment is always working for you, no matter which style is in favor at any given time.

TOP PERFORMING STYLE COMBINATIONS 1985–2010*

* Source: % performance differences for Russell 1000® Growth vs. Russell 1000® Value and Russell 1000® (large cap) vs. Russell 2000® (small cap) indexes. Index performance is not indicative of the performance of any specific investment. Indexes are not managed and may not be invested in directly. Past performance is not a guarantee of future results.

As is depicted in the chart above, market leadership shifts often, and sometimes to extreme. For example, look at the shift from growth in 1999 to value in 2000. This shift would have had a swift and undesirable impact on an investor in a growth-only investment portfolio.

Knowing the best way to combine management styles can be complicated. We believe the key is to combine money managers with different styles in complementary ways.

CLOSER LOOK AT ASSET CLASSES & INVEST

Value of Diversification

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
BEST PERFORMANCE	LARGE CAP VALUE 38.35	REAL ESTATE 35.26	LARGE CAP VALUE 35.18	LARGE CAP GROWTH 38.71	SMALL CAP GROWTH 43.09	REAL ESTATE 26.35	SMALL CAP VALUE 14.03	BONDS 10.26	SMALL CAP GROWTH 48.54	REAL ESTATE 31.57	INT'L 14.02	REAL ESTATE 35.06	LARGE CAP GROWTH 11.81	BONDS 5.24	LARGE CAP GROWTH 37.21	SMALL CAP GROWTH 29.09
	LARGE CAP 37.77	LARGE CAP GROWTH 23.12	LARGE CAP 32.85	LARGE CAP 27.02	LARGE CAP GROWTH 33.16	SMALL CAP VALUE 22.83	REAL ESTATE 13.93	REAL ESTATE 3.81	SMALL CAP 47.25	SMALL CAP VALUE 22.25	REAL ESTATE 12.15	INT'L 26.86	INT'L 11.63	SMALL CAP VALUE -28.92	SMALL CAP GROWTH 34.47	REAL ESTATE 27.95
	LARGE CAP GROWTH 37.19	LARGE CAP 22.45	SMALL CAP VALUE 31.78	INT'L 20.33	INT'L 27.30	BONDS 11.63	BONDS 8.44	SMALL CAP VALUE -11.43	SMALL CAP VALUE 46.03	INT'L 20.70	LARGE CAP VALUE 7.05	SMALL CAP VALUE 23.48	SMALL CAP GROWTH 7.05	SMALL CAP -33.79	INT'L 32.46	SMALL CAP 26.85
	SMALL CAP GROWTH 31.04	LARGE CAP VALUE 21.64	LARGE CAP GROWTH 30.49	LARGE CAP VALUE 15.63	SMALL CAP 21.26	LARGE CAP VALUE 7.01	SMALL CAP 2.49	LARGE CAP VALUE -15.52	INT'L 39.17	SMALL CAP 18.33	LARGE CAP 6.27	LARGE CAP VALUE 22.25	BONDS 6.97	LARGE CAP VALUE -36.85	LARGE CAP 28.43	SMALL CAP VALUE 24.50
	SMALL CAP 28.44	SMALL CAP VALUE 21.37	SMALL CAP 22.36	BONDS 8.69	LARGE CAP 20.91	SMALL CAP -3.02	LARGE CAP VALUE -5.59	INT'L -15.66	REAL ESTATE 37.14	LARGE CAP VALUE 16.49	LARGE CAP GROWTH 5.26	SMALL CAP 18.37	LARGE CAP 5.77	LARGE CAP -37.60	REAL ESTATE 27.99	LARGE CAP GROWTH 16.71
	SMALL CAP VALUE 25.75	SMALL CAP 16.49	REAL ESTATE 20.29	SMALL CAP GROWTH 1.23	LARGE CAP VALUE 7.35	LARGE CAP -7.79	SMALL CAP GROWTH -9.23	SMALL CAP -20.49	LARGE CAP VALUE 30.03	SMALL CAP GROWTH 14.31	SMALL CAP VALUE 4.71	LARGE CAP 15.46	LARGE CAP VALUE -0.17	REAL ESTATE -37.73	SMALL CAP 27.17	LARGE CAP 16.10
	BONDS 18.47	SMALL CAP GROWTH 11.26	SMALL CAP GROWTH 12.95	SMALL CAP -2.55	BONDS -0.82	INT'L -13.96	LARGE CAP -12.45	LARGE CAP -21.65	LARGE CAP 29.89	LARGE CAP 11.40	SMALL CAP 4.55	SMALL CAP GROWTH 13.35	SMALL CAP -1.57	LARGE CAP GROWTH -38.44	SMALL CAP VALUE 20.58	LARGE CAP VALUE 15.51
	REAL ESTATE 15.25	INT'L 6.36	BONDS 9.65	SMALL CAP VALUE -6.45	SMALL CAP VALUE -1.49	LARGE CAP GROWTH -22.42	LARGE CAP GROWTH -20.42	LARGE CAP GROWTH -27.89	LARGE CAP GROWTH 29.75	LARGE CAP GROWTH 6.30	SMALL CAP GROWTH 4.15	LARGE CAP GROWTH 9.07	SMALL CAP VALUE -9.78	SMALL CAP GROWTH -38.54	LARGE CAP VALUE 19.69	INT'L 8.21
WEAKEST PERFORMANCE	INT'L 11.55	BONDS 3.63	INT'L 2.06	REAL ESTATE -17.51	REAL ESTATE -4.62	SMALL CAP GROWTH -22.43	INT'L -21.21	SMALL CAP GROWTH -30.26	BONDS 4.10	BONDS 4.34	BONDS 2.43	BONDS 4.33	REAL ESTATE -15.69	INT'L -43.06	BONDS 5.93	BONDS 6.54

Please note that this chart is based on past index performance and is not indicative of future results. Indexes are unmanaged and cannot be invested in directly. Index performance does not include fees and expenses an investor would normally incur when investing in a mutual fund. Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.

SEE REVERSE FOR SOURCE DATA

Thy Fourth Remedy

- “Guard thy treasure from loss by investing only where thy principal is safe, where it may be reclaimed if desirable, and where thou will not fail to collect a fair rental. Consult with wise men. Secure the advice of men experienced in the profitable handling of gold. Let their wisdom protect thy from unsafe investment”.

The Many Colors of Risk

- Risk is the possibility that you may lose some or all of your investment, or that your investment may not increase in value. When investing, you face the following key risks

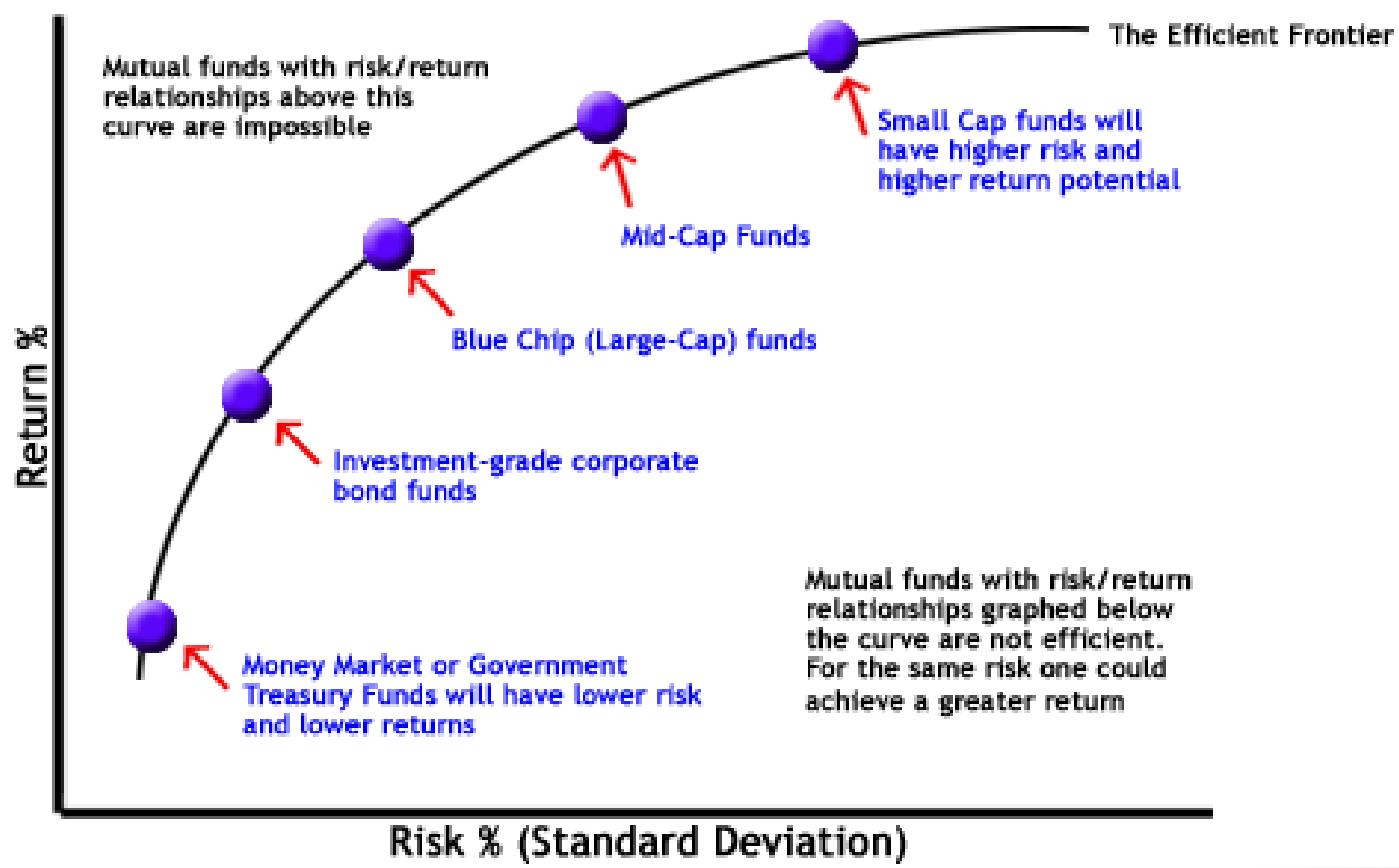
Risk vs Reward

- For you to reach your financial objectives, you must choose from a variety of investment alternatives-all of which vary greatly in the degree and type of risk and potential return.
- Before investing, you should determine your personal level of risk tolerance, given your needs and goals.

All Investments Have Risk

- **Market Risk**
- **Credit Risk**
- **Inflation Risk**
- **Reinvestment Risk**
- **Liquidity Risk**
- **National, International, and Political Risk**
- **Economic Risk**
- **Industry Risk**
- **Tax Risk**

Efficient Frontier



How Much Risk For Me?

- Several factors may influence the amount of risk you can comfortably accept in your portfolio, including:
- Your age
- Family situation
- Income
- Financial goals
- In addition, the markets evolve and your personal goals will inevitably change with time.

Thy Fifth Remedy

- "Own thy own home".

Thy Sixth Remedy

- “Provide in advance for the needs of thy growing age and the protection of thy family”.

Definitions

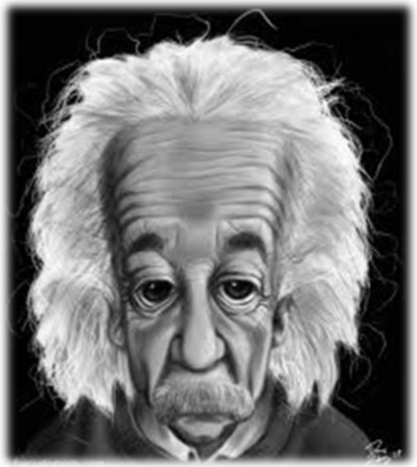
Financial knowledge

- A “stock of knowledge acquired through education and/or experience specifically related to essential personal finance concepts and products.”

Financial Literacy

- The “ability and confidence to effectively apply or use knowledge related to personal finance concepts and products”.

Compound Interest



"The most awesome power of the universe is that of compound interest"
Albert Einstein

Savings

At age 18, you decide not to buy soda and/or snacks at the school cafeteria anymore. You save the $4.00 per day.

You save this $4.00 a day at 5.1% annual interest until you are 67.

At age 67, your savings is:

a) **$1,159**

b) **$25,355**

c) **$71,540**

d) **$319,159**

The Answer is: d) **$319,159**

The Rule of 72's

Investment	Rate of Return	Years to Double
Passbook Savings	1.5%	48 Years
Money Market	2.5%	29 Years
U.S. Treasury Bond	1.666%	43 Years
S&P 500 (10yr)	7.17%	10 Years

By dividing 72 by the annual rate of return, investors can get a rough estimate of how many years it will take for the initial investment to duplicate itself.

Inflation

It's a fact of life: Prices increase over time. Here are some typical costs as of 2010 and how much they're projected to cost in 15 years assuming a 3% inflation rate.

	4 Years at a Public College[1]	4 Years at a Private College[1]	Raising a Child from Birth to Age 17[2]	Single Family Home[3]	New Car[4]
Typical Cost in 2010	$87,664	$174,457	$366,660	$284,000	$33,190
Typical Cost in 2025	$182,246	$362,683	$571,244	$594,632	$51,536

1. Source of chart data: The College Board's, "Trends in College Pricing," 2010. Average college costs include tuition, fees, books and supplies, room and board, transportation and other expenses, as well as an assumed 5% annual rate of increase. This illustration uses the actual 2010 cost averages in order to project the hypothetical future costs.
2. Source of chart data: Based on inflation rate of 3% and cost of $366,660 (households with a pretax income of more than $98,470) from U.S. Department of Agriculture, *Expenditures on Children by Families*, 2008, published July 2009.
3. Source of chart data: Based on inflation rate of 3% and cost of $284,000 from U.S. Census Bureau and U.S. Department of Housing and Urban Development, *New Residential Sales* in January 2011.
4. Source of chart data: autosite.com. Estimated price of 2010 Ford Explorer.

What Might It Cost

Exercise:

Pick an item that you recently purchased and lets see what it will cost in the future.

A new pair of Nike shoes today might cost around $60.00

Years to Retirement	Inflation Factor[4]
10	1.34
20	1.81
30	2.43
40	3.26

In ten years those same shoes will cost $80.00.
In 20 year, $109,
in 30 years, $146,
and in 40years, $196.

Thy Seventh Remedy

- “Cultivate thy own powers, to study and become wiser, to become more skillful, to so act as to respect thyself”.

THE RICHEST MAN IN BABYLON

The basic principles of effective Money Management

1. Save at least 10-percent of all that you earn for an investment fund for the future.

2. Learn to live on 90-percent or less of your income.

3. Invest your accumulated capital into projects that will provide a safe, steady income, taking full advantage of compounding of the interest received.

4. Invest only in areas in which you have expertise or with people who are experienced.

5. Buy the house in which you live so you don't waste any money on rent.

6. Have a realistic insurance program

7. Always keep working at various ways and means of increasing your income.

*the*Billionaires**Brain**.com