DAVE'S
Investment
PHILOSOPHY

Investing for those just getting started

Let's put first things first. Before you begin investing you need to complete your first three baby steps: start an emergency fund, get out of debt, and save up three to six months of expenses. If you've done that, it's time to get really serious about building wealth. What you'll learn in the next few pages is my own personal philosophy on investing.

Investing for retirement

If you want to reach your golden years with financial dignity, you need a plan. Here's mine.

Begin by taking part in a pre-tax savings plan (401k, 403b, TSP, Traditional IRA) and a tax free savings plan (Roth IRA, Roth 401k).

Note: If you receive a company match in your 401k, 403b, or TSP; invest in those plans, up to the match, first. Once your contribution equals the company match, fully fund a Roth IRA for you, and if you're married your spouse. If you've maxed out your contribution to your Roth IRA and still have money to invest, invest the rest in your 401k, 403b, or TSP.

DAVE RAMSEY'S BABY STEPS 7

Don't start investing until you complete baby step 3

1. $1,000 to start an emergency fund
2. Pay off all debt using the debt snowball
3. Three to six months of expenses in savings
4. Invest 15% of household income into Roth IRAs and pre-tax retirement
5. College funding for children
6. Pay off home early
7. Build wealth and give! Continue investing in mutual funds and real estate

If you are still on baby steps one through three, be patient. Put off investing for now.

Why wait?

Avoiding a crisis with a fully funded emergency fund and paying off high interest debts is a fantastic investment!

What do you do with the extra money that you poured into the emergency fund and debt payoffs? Don't give yourself a raise! Get on an investment plan and invest the extra money. You can find out who I recommend to help you build a plan by going to *www.daveramsey.com/sa/mutualfunds*.

Want to find a great investing agent to help you? *Go visit www.daveramsey.com/sa/mutualfunds*

Pay a pro or do it yourself?

Without a doubt, pay a pro. I, myself, will not make an investment without consulting an investment agent.

Statistics show that "do it yourselfers" are quick to jump out of funds when they begin to under perform. A good professional advisor will remind you why you chose the fund in the first place and prevent you from losing money by buying high and selling low.

Working with an investment advisor

They advise, you make decisions. You are paying them for advice and the ability to teach you enough to make smart decisions about your investments. You are not handing over this responsibility because they are a professional or even because I endorse them. Retain ownership and responsibility for all final decisions.

Don't invest in anything unless you can easily explain how the investment works to someone else. If you can't communicate easily with your financial advisor, find one that does a better job of communicating. Take your time and make wise decisions.

Note: Separate Account Managers
I will never use these. They are third party investment professionals that buy and sell stocks or mutual funds on your behalf. Do what I do and stick with a team of managers of large and experienced mutual funds.

Investing for those just getting started (continued)

Mutual Funds

Here's my approach. I select mutual funds that have a winning track record for more than five years and preferably more than ten years. I don't look at their one-year or three-year track records because I think long term. I spread my investing evenly across four types of funds. That means I put 25% of my investment amount into each of the following:

- Growth and Income Funds
- Growth Funds
- International Funds
- Aggressive Growth Funds

Single Stocks

I do not own single stocks and I do not suggest single stocks as part of your investment plan. Over the long term, single stock investors don't consistently generate returns as high as mutual funds. If you really want to own a single stock, limit it to no more than 10% of your investment portfolio.

Certificates of Deposit (CDs)

Only use CDs for savings not for long term investing. CDs carry a low rate of return.

Bonds

I do not own any bonds. Despite their stereotype, single bonds can be very volatile and can actually go down in value.

Fixed Annuities

Stay away from fixed annuities!

Variable Annuities (VAs)

VAs are savings contracts with a life insurance company. These should only be considered by people who have reached baby step 7. I do not own any VAs. I prefer mutual funds and paid for real estate as investments for people on baby step 7.

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Investing for College

Invest the first $2,000 per year in an Educational Savings Account (ESA). ESAs are simple and work like personal IRAs. When saving for a young child that will attend public school, the ESA will usually be all you need.

If you want to invest more than $2,000 per year or if your income is more than $200,000 per year, choose a 529 plan. Each state has a different 529 plan and they all vary in the way they work. When choosing a 529 plan, pick a plan that allows you to choose the funds up front and to keep them until it's time to use the funds for education. Remember, stick to the four types of funds I suggest.

Commissions and Fees

These are referred to as a loaded fund (commission) and a no-load fund (no commission).

Generally, I suggest loaded funds. Here's why: Many financial planners sell only loaded funds. If you go for no-load funds, you'll be picking these funds on your own, which I do not suggest. A good investment agent will consider tax implications, changes in legislation, and educate you about investing.

All that being said, no-load funds are not evil. I do not dwell on the fact of a fund being a load or no-load fund nearly as much as making sure that the fund has a long, successful track record.

Investing for those just getting started (continued)

Exchange Traded Funds (ETFs)

I don't own ETFs and I do not suggest them as part of your investment plan. ETFs are baskets of single stocks that intend to operate like mutual funds. Sounds good in theory but the are not mutual funds

Real Estate Investment Trusts (REITs)

As a category, REITs just don't stack up to good growth stock mutual funds. I do not own any REITs and don't suggest them for you. If you really want to invest in REITs, limit them to no more than 10% of your local investment portfolio.

Equity Indexed Annuities

Equity Indexed Annuities contractually agree to limit your loss whil you agree to limit your gains. I do not own these and I don't recommend them for you.

Thrift Savings Plan (TSP)

Here's my suggestion for TSPs:
40% in C fund/plan
40% in S fund/plan
20% in I fund/plan

Values Based Investing

I do not use a values based investing approach. Let me explain.

I agree with the concept; it makes sense to invest in something that aligns with your beliefs. However, very few of these types of funds meet my criterial for picking mutual funds. For you, this is a very personal decision to make. It's also known as a slippery slope. For instance, if you no longer invest in funds that might invest in a company that supports abortion you would also need to stop banking because nearly all banks contribute to United Way, which supports Planned Parenthood.

Whatever your stance, just be sure to not choose these funds out of guilt. Don't make poor investment decisions to choose these funds.