



Investment Training Prerequisite

Topic: Investment Foundations

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Disclaimer

This presentation is for informational purposes only. It does not constitute nor imply investment advice in any way. Investing involves risk, including the risk of losing principle. An investor should consider their own investment objectives and risk tolerance before choosing any investment product.

First Step: Why Invest?



Investment Goal: Maximize the odds of meeting/exceeding your financial requirements

Desired Portfolio Qualities (partial list):

- Reasonably predictable
- Value is available when you need it
- Delivers a higher return than the “risk-free” rate
- Meets or exceeds goals with minimal risk

Objective of financial planning is to reduce or eliminate financial stress

Tools in the Toolbox

Tool	Risk	Return Potential	Predictability
Buy stocks/stock funds	HIGH	EXCELLENT	POOR
Buy bonds/bond funds	MEDIUM	FAIR	GOOD



Fixed Index Annuity	LOW	FAIR	EXCELLENT
Sector-based stock strategy	MEDIUM-HIGH	EXCELLENT	FAIR
Equipment Leasing	MEDIUM	VERY GOOD	VERY GOOD
Mortgage Notes	MEDIUM-LOW	MEDIUM	EXCELLENT
Gold/Silver/Commodities	HIGH	VERY GOOD	POOR
Energy MLPs	MEDIUM-HIGH	EXCELLENT	FAIR
Real Estate	HIGH	EXCELLENT+	POOR



NOTE: Ranking is the opinion of Jerry Verseput and is highly subjective.

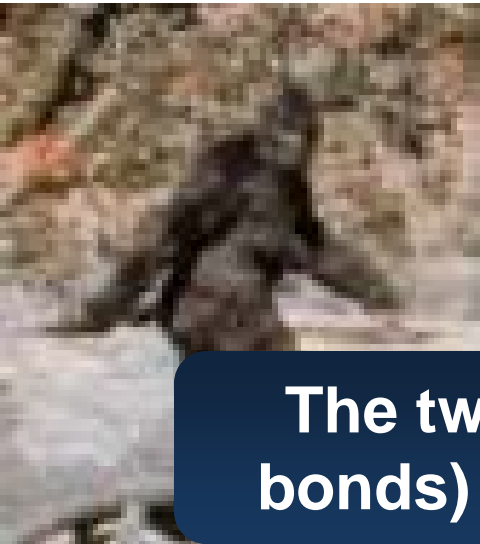
Most investors are limited to two tools, but you need more tools to effectively balance risk and goals

Tool Descriptions

Investment Type	Description/Qualities
Fixed Index Annuity	<ul style="list-style-type: none">- Principal and interest guaranteed by insurance company- Guaranteed lifetime income- Limited liquidity
Sector-based Stock Strategy	<ul style="list-style-type: none">- Achieves diversification across sectors (Energy, Healthcare, Financials, etc)- Limits risk by setting clear sell and buy points- Fully liquid
Equipment Leasing (Secured Income)	<ul style="list-style-type: none">- Income stream secured by business-critical property- Pays fixed income with potential for growth- Non-liquid for 6-10 years
Mortgage Notes (Secured Income)	<ul style="list-style-type: none">- Invests in “first position” notes with high safety margin- Income stream secured by real estate- Monthly liquidity after 12 months
Managed Futures	<ul style="list-style-type: none">- Common method to invest in commodities- Particularly good down-trend performance
Energy MLPs	<ul style="list-style-type: none">- Invests in energy “transportation” partnerships (pipelines, refineries, etc)

Comments On Some Common Myths

- Stocks are safe over the long-term
 - No guarantee that “long-term” includes the time you need your money
 - Assumes that history repeats itself
 - Ignores changing world conditions
- Bonds are always low risk
 - Bond prices rise when interest rates fall, and fall when interest rates rise
 - Interest rates have been falling for 30 years
 - This history WILL NOT repeat itself



The two most common tools (buy stocks/buy bonds) are not as safe as many investors think

Balancing Return Potential and Safety

“Risk-free” Rate Of Return (10-year Treasury): 2.9%

- “Risk-free” refers to Principal or Market Risk
- Other risks need to be considered
 - Inflation (purchase power) risk
 - Interest rate risk
 - Reinvestment risk
 - Liquidity risk
- To earn more than the Risk-Free Rate, we must make a tradeoff
 - Safety (buy stocks, buy lower quality bonds)
 - Liquidity (annuities, Secured Income funds)
 - Potential return (annuities, Secured Income, stock “safety net”)



Everything comes with a tradeoff, but some tradeoffs are better than others

Third Step: Choosing the Investment Tools

- Establish a firm income base
 - I prefer trading off liquidity or upside potential
 - Good candidates: Guaranteed annuities (see JoeP), Secured Income
 - Diversified bond portfolio (floating rate, total return, etc)
- Mix in growth potential/inflation protection
 - Carefully-managed stocks
 - Energy MLPs
 - Gold/commodities
 - Real Estate
- Pick the right professionals to help design, monitor and manage



Each investor will have a unique tolerance and desire for risk and growth potential. One size never fits all.

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