

Chapter 1

**THE
FUNDAMENTALS
OF INVESTING**

Understand Your Current Situation

Before you make any investment decisions, you should first establish where you sit financially today. This means taking inventory, just like a business would, before making strategic decisions. You can't set financial goals or design a smart portfolio until you know your starting point. Next, ask yourself what you're trying to accomplish. Be as specific as possible. Are you saving for retirement, funding college, buying a home, or building generational wealth? The clearer your goal, the more tailored your investment strategy can be.

To determine where you are today, we need to create a net worth statement, which is a list of your assets (things you own) and liabilities (money you owe). This step is often skipped, but it's essential. You can't improve what you haven't measured. When we subtract your liabilities from your assets, we get your net worth. That number isn't just a snapshot; it's the baseline from which we build.

Within your list of assets, you're going to have things like your IRA, your 401(k), and your personal investment account, but you're also going to have things like a house and a car. It helps to break up your assets into two categories: appreciating and depreciating. Now, you need to know that there's a difference between those assets. While they all show up on the same side of the ledger, some of those assets bring money to you, like an investment account or a rental property, while other assets take money away from you, like a car or a house. This is a key distinction that many people overlook. Just because things have value doesn't mean they help you achieve financial independence. It doesn't mean they're bad, but it means we shouldn't include them in your retirement planning. Your primary home, for instance, might appreciate over time, but it likely won't generate retirement income unless sold or leveraged.

Within the liabilities section, you'll list any loans you have, like your mortgage and car loan, along with credit card debt and anything else you owe. Also include student loans, personal loans, and business debt—anything that requires regular repayment. What you have left after your liabilities are subtracted from your assets is your net worth value. How does that number look? This isn't a moment for judgment. It's a moment for awareness and planning.

The next thing we need to do is take a closer look at your assets to determine which ones can really contribute to your future financial independence. Because at the end of the day, the goal isn't to simply accumulate; it's to own assets that work for you.

List your assets
(things you own)

NET WORTH STATEMENT		
	Rate of Return	Market Value
Bank Accounts		
Anytown Bank Checking Account	0.00%	\$5,000
Anytown Bank Savings Account	0.00%	\$30,000
Qualified Accounts		
Roth IRA	6.00%	\$250,000
401(k)	6.00%	\$1,275,000
Taxable Investments		
Investment Account	6.00%	\$225,000
Real Estate		
1234 Happy Lane	--	\$450,000
Personal Property		
2019 Chevy Silverado	--	\$35,000
Home Contents		\$45,000
Business Assets		
ABC, Inc. (10%)	0.00%	\$1,200,000
Total Assets		\$3,515,000
	Interest Rate	Current Balance
Liabilities		
Loan for 1234 Happy Lane	4.125%	\$300,000
Loan for 2019 Chevy Silverado	1.500%	\$20,000
Credit Card Debt	19.73%	\$5,225
Total Liabilities		\$325,225
Total Net Worth		\$3,189,775

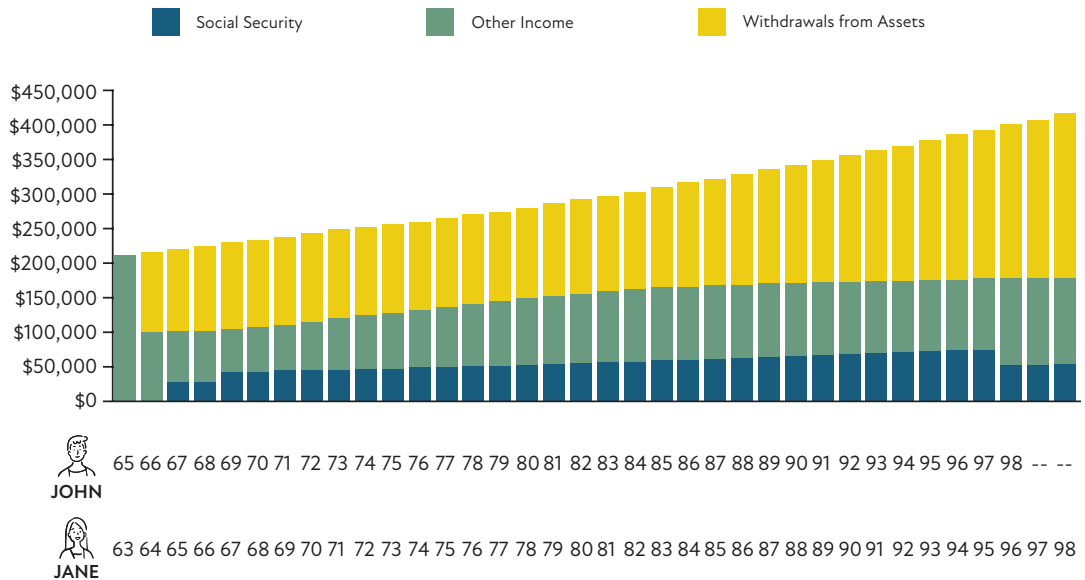
List your liabilities
(money you owe)

Where Are You Trying to Go?

There’s a lot going on in this graph, so we want to look at a lot of different things. Financial independence requires assembling multiple income sources, and mapping them out lets you clearly see how they work together. What’s going to come from Social Security in the future? Consider various claiming strategies, especially if you’re married, as timing can greatly affect lifetime benefits. What’s going to come from rental income? Be sure to subtract expenses and consider vacancies when estimating actual net income. What might be coming from a pension? Don’t forget to look at survivorship benefits, inflation protection, and lump sum options. And what’s your portfolio going to have to create to make up the difference to keep you financially independent? This is the income gap and understanding it gives you a target to aim for in your investment strategy.

Once we know where you are and where you want to go, it makes it a lot easier for us to say, “Okay, let’s take the basic fundamentals of creating a portfolio and start there.” This is where guesswork ends and a true, goal-oriented plan begins.

Define Your Short-, Mid-, and Long-Term Goals.



ASSUMING A MORTALITY AGE OF 99 FOR BOTH JOHN AND JANE

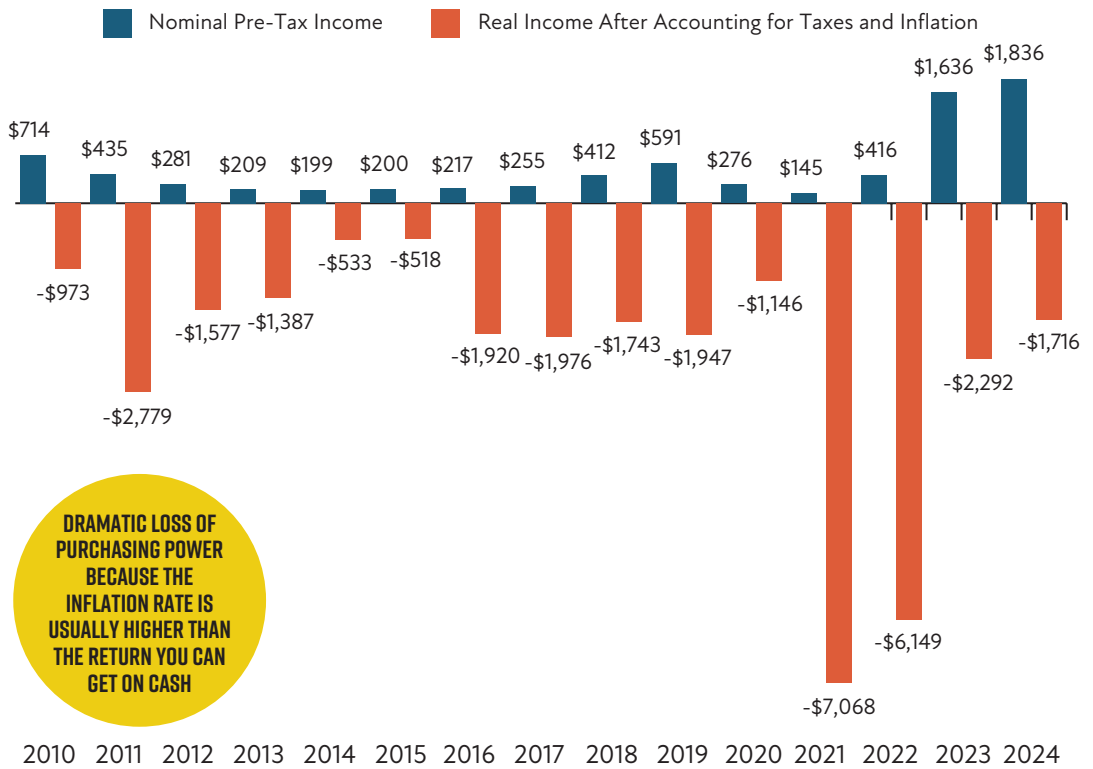
Cash Is Not King

The most basic investment is cash. It's familiar and feels safe, but that doesn't make it effective for building wealth. I don't even like calling it an investment in today's world, because it's not really an investment that goes to work for you. Instead, cash goes to work for the bank. Banks take your deposits, lend them out at higher rates, and pocket the difference. That's not a winning formula for you. The way to think about money is that every dollar bill on the planet throws a shovel over its shoulder and goes to work for somebody every day. If you have it working for you in stocks, bonds, or real estate, that's great. You're collecting income and appreciation. That's your money earning money, which is the essence of investing. But if it's sitting in the bank, it's going to work for the bank.

Because of inflation, if you have money in cash you're losing your purchasing power over time. Inflation is like a slow leak in your financial tire; it gradually deflates what your money can buy. Ten years from now a dollar will buy far less than it does today, and that's why you need your money to go to work for YOU every single day.

Cash is a terrible investment. It may preserve value in the short term, but over time it quietly erodes your financial future. Keep what you need for an emergency in cash. Otherwise, make sure your dollar bills throw a shovel over their shoulder for you! Put your money in motion, because idle dollars are wasted potential.

The Challenge of Cash
Annual Income Generated by a \$100,000 Investment in a 1-Year CD.



Forget About Price; Focus on Income

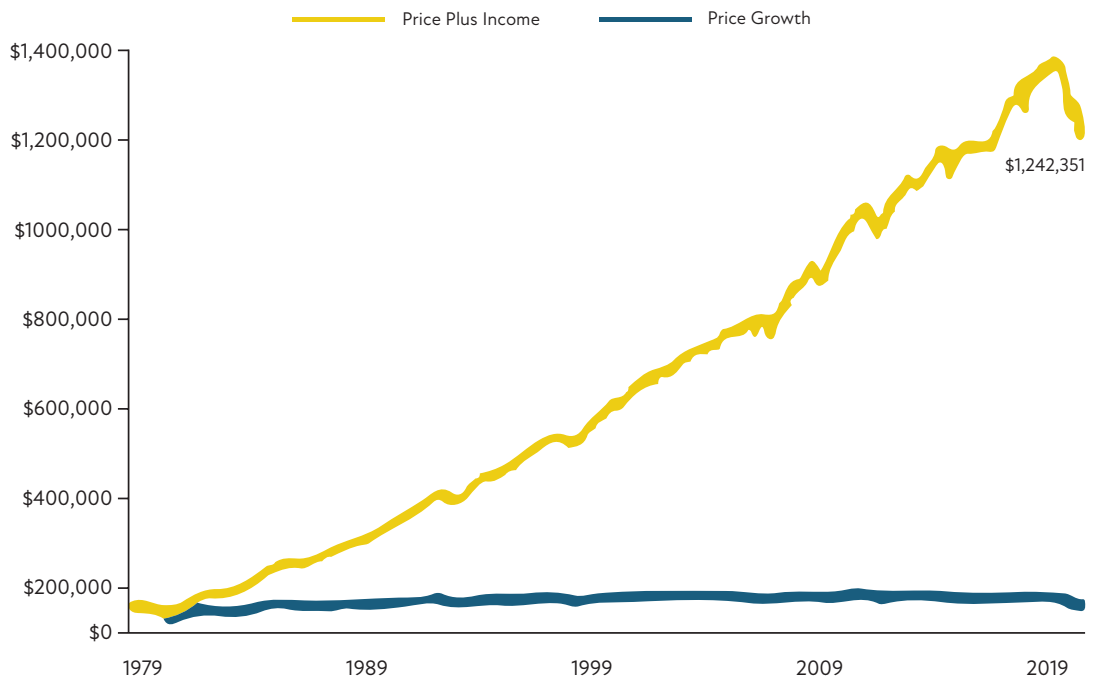
Bonds aren't nearly as complicated as they first appear. They're often misunderstood, but at their core, they're just structured agreements—and very logical ones at that. A bond is, quite simply, a loan. And if I loan you \$10 and charge you 5% interest, for all practical purposes I have a bond. On an agreed upon date, you'll owe me my \$10 back plus 5% interest per year. It's that simple.

A loan to the federal government is a Treasury bond. A loan to a county, city, state, or other governmental entity is a municipal bond. A loan to a corporation, like McDonald's, is a corporate bond, and if the company isn't doing so well, you can collect even more interest, and we may call that corporate bond a "high-yield" or "junk" bond. You get the idea.

If you buy a \$100,000 bond and we look forward 10 years from now and that bond is paying 3% interest, you'll get your \$100,000 back plus the 3% per year. That steady stream of income can be a stabilizing force in a diversified portfolio. Your main risk is "default" risk, which happens if the entity you're loaning money to goes bankrupt. Your other major risk is "interest rate" risk. If you loan money for 20 years at 3% and interest rates rise to 6%, well, you're stuck getting 3%, which is no fun. This is why bond maturity and credit quality should match your goals and risk tolerance.

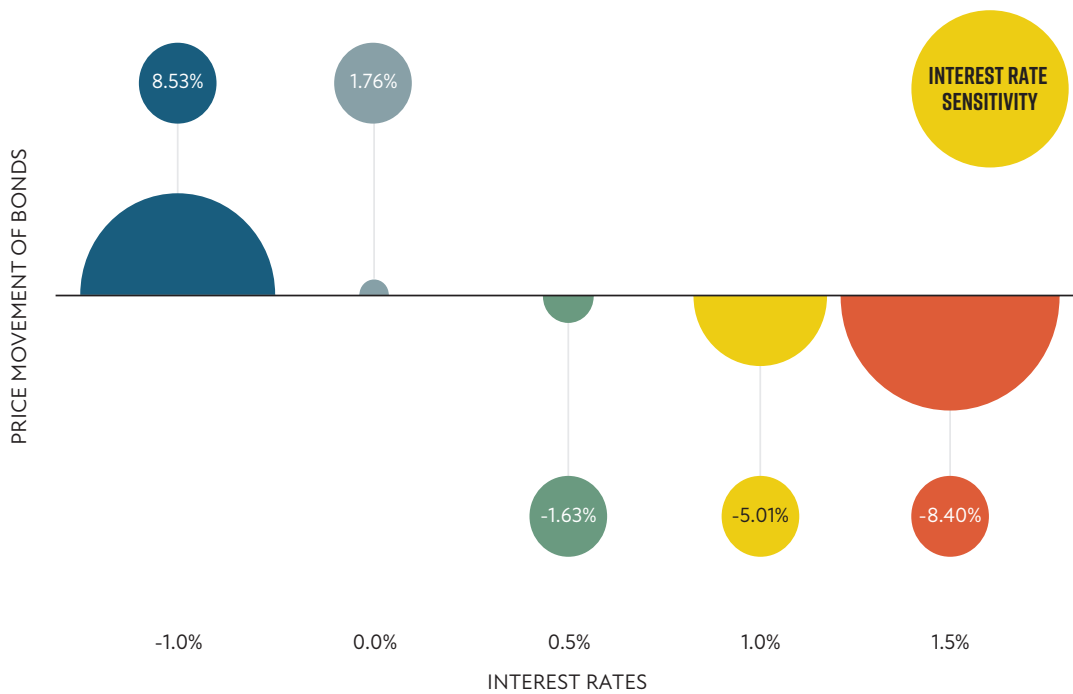
Assuming the entity stays in existence, your return comes from the interest rate. Lots of bond managers out there try to time the interest rate market and move in and out of bonds, but most long-term investors simply play the long game, collecting their interest along the way and holding bonds until they mature. That consistency is why bonds have a meaningful place in many retirement income strategies.

Fixed Income: Forget About Price; Focus on Income \$100,000 Investment in the Bloomberg Municipal Bond Index | 1979–2022.



**“ IN AN ENVIRONMENT LIKE WE HAVE TODAY,
LONG-TERM BONDS ARE
VERY, VERY DANGEROUS ”**

The Challenge with Long-Duration Bonds
Bloomberg Barclays U.S. Aggregate Bond Index—Hypothetical Returns Based on Hypothetical Moves in Rates Over the Next 12 Months.



Gold Is a Lousy Investment

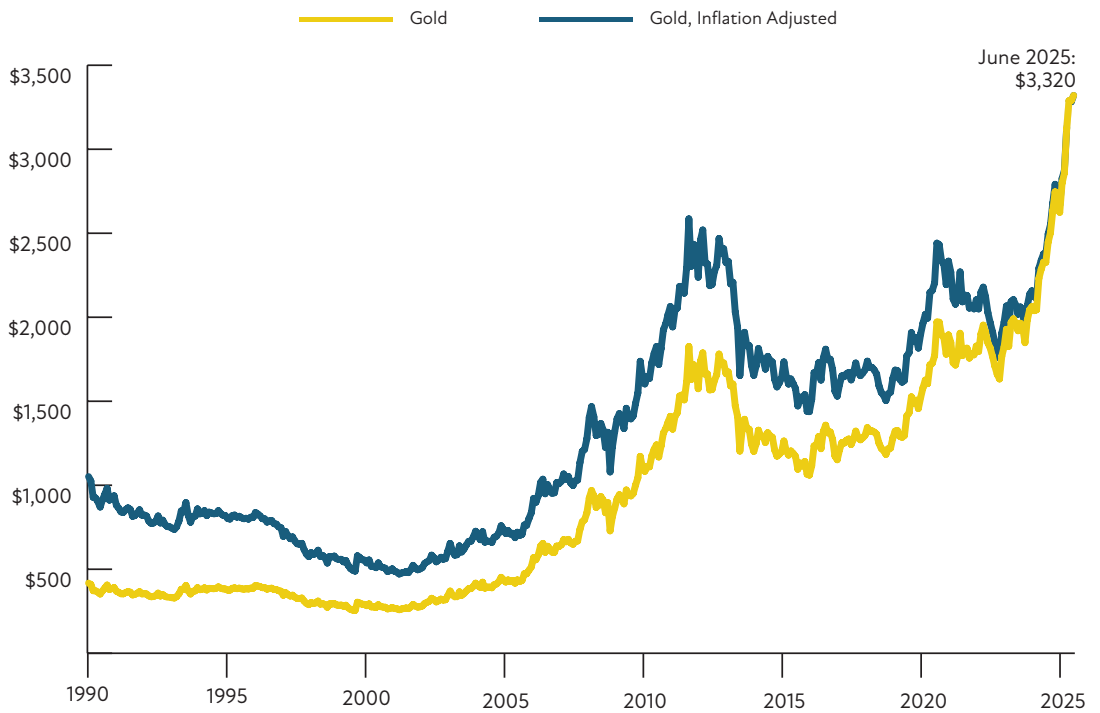
For those of us who don't plan to be around 10,000 years from now, gold is a lousy investment. It may have symbolic appeal, but symbolism doesn't pay the bills.

Unlike stocks, bonds, and real estate, gold itself is nearly intrinsically worthless. Stocks, bonds, and real estate have the potential to create income. Gold produces no income and isn't a critical resource. It doesn't contribute to economic growth or job creation, and it doesn't generate cash flow. It just sits.

Historically, gold has performed worse than stocks, real estate, energy, and bonds, barely keeping pace with inflation. Every time in history that it has outperformed substantially, it has ultimately collapsed. This pattern of boom and bust makes it difficult to plan around. Finally, while gold has proven to dramatically underperform stocks and even bonds over the long run, it's still one of the most volatile asset classes. And unlike with stocks, you don't get paid to endure the volatility.

Gold belongs only in the portfolios of fearmongers and speculators. If you own gold in your portfolio, expect to receive no income, pay higher taxes on your returns, take a more volatile ride than the stock market, and get a long-term return lower than bonds. No thanks. There are far better tools for building and preserving wealth.

Gold Prices USD per Ounce.



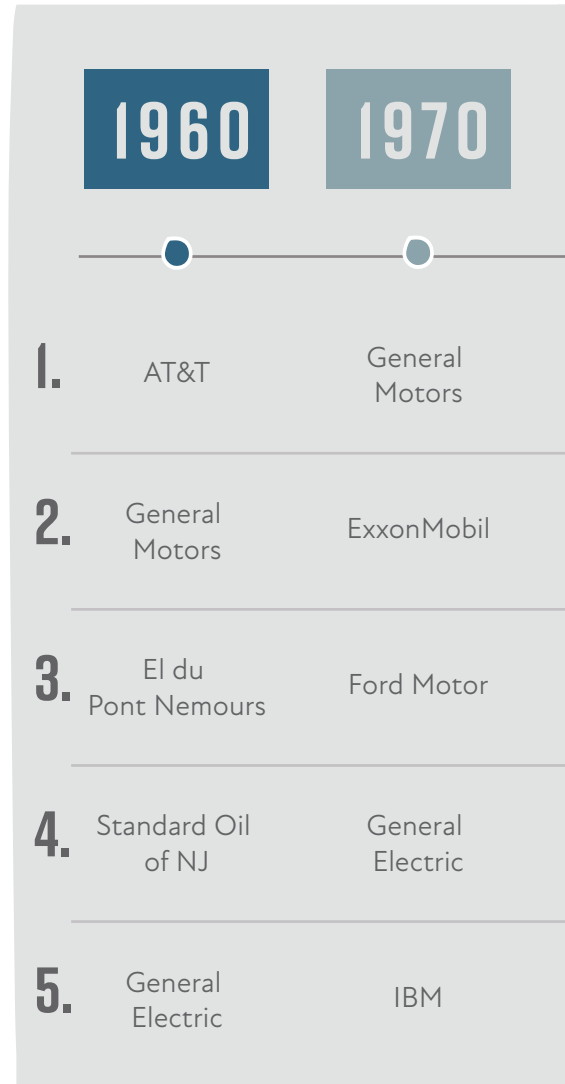
Top 5 Companies in S&P 500 by Market Cap

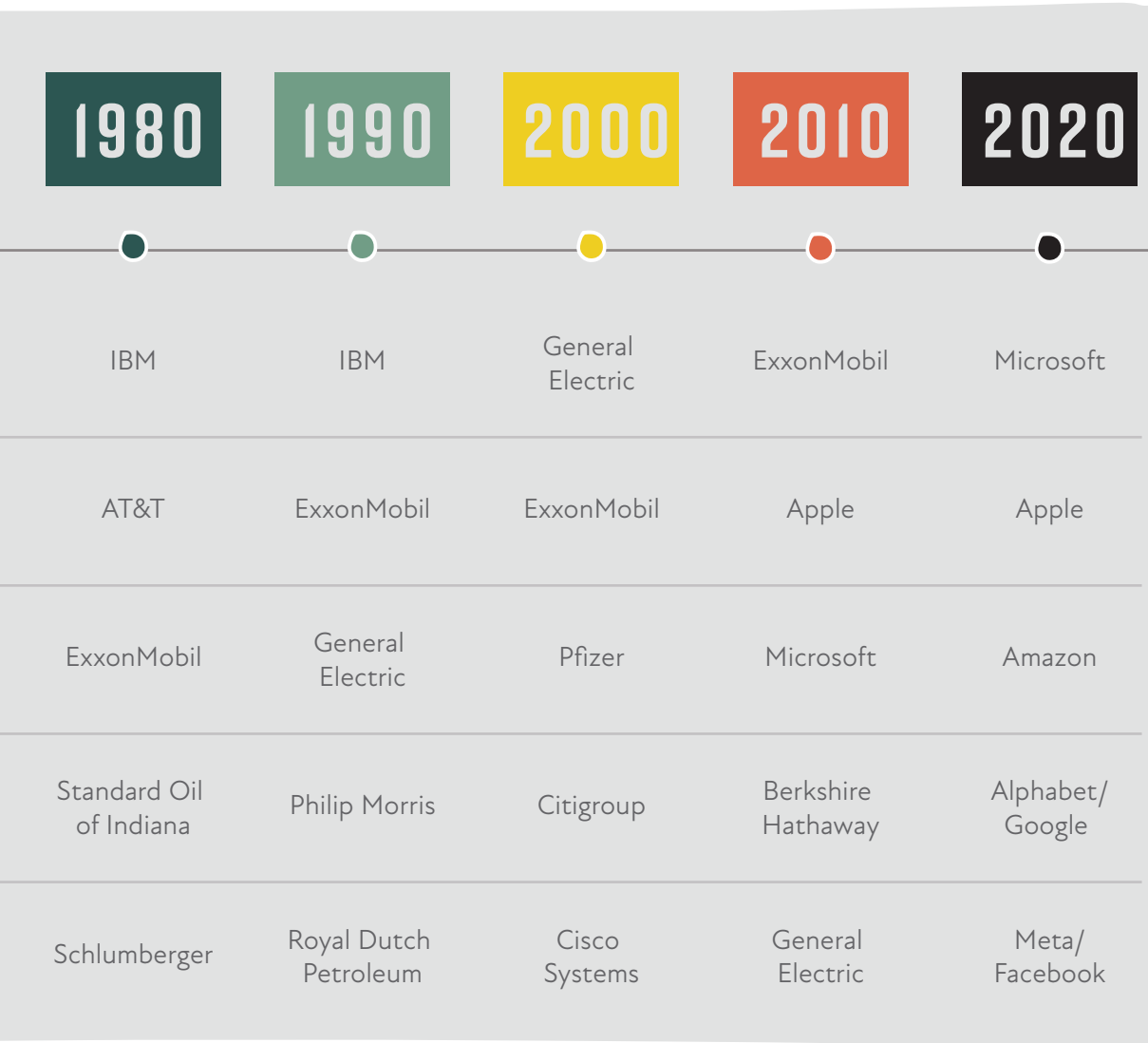
Looking at the stock market, it always seems obvious what companies are going to be around forever. Today we would say, “Oh, it’s obvious it’s Nvidia, Microsoft, Apple, and Amazon.” That certainty is comforting but also misleading. What feels like a sure thing today can easily be disrupted tomorrow.

No matter how strong a company seems, capitalism has a way of humbling it and replacing it with something more effective. Competition, innovation, and consumer behavior don’t stand still. That’s why betting too heavily on one or two winners can backfire. If we look more recently, we see Nvidia, Microsoft, Apple, Amazon, and Meta.

It’s very hard to imagine anything happening to these companies. Yet history has taught us that no company is immune to market cycles, regulatory changes, or technological obsolescence. If we look forward 20 years from now, maybe one will still be in the top five and others will have taken most of their places.

That’s why diversification matters. You’re not just investing in today’s leaders; you’re also investing in tomorrow’s opportunities.



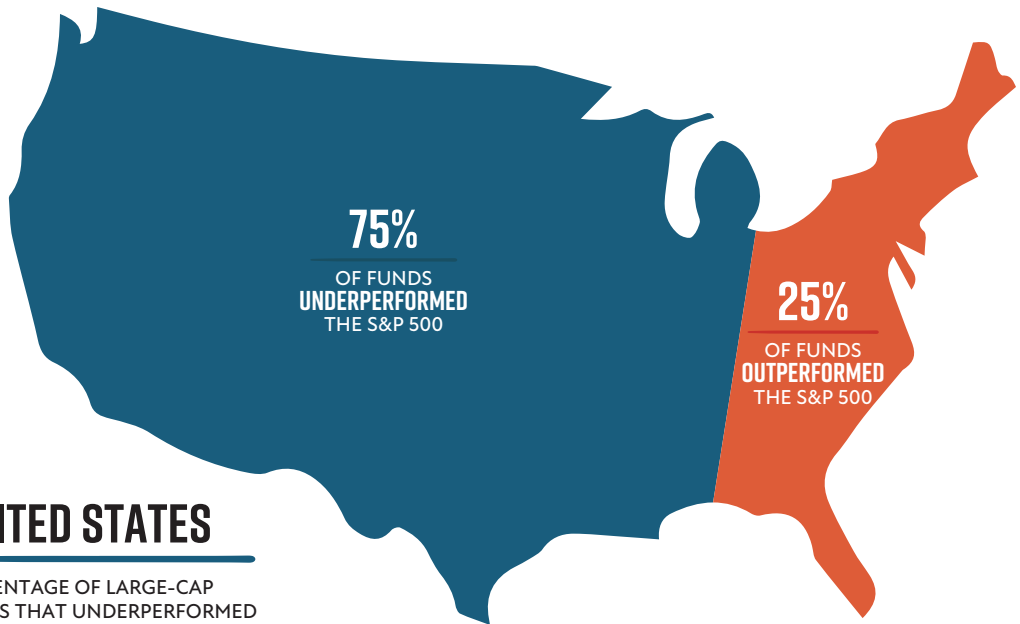


Public Markets

I'm a big believer in owning a group of individual stocks that make up an index. Indexes tend to outperform professional managers. That may seem surprising, but it's consistently supported by data. Most managers fail to beat the market after fees, taxes, and trading costs are considered.

As of June 2022, if you look back over the five years prior, about three out of four professional traders did worse than the S&P 500. These are smart, experienced people, but markets are efficient, and short-term success is often luck, not skill. If you own a professionally managed mutual fund, hedge fund, or other type of fund, you can expect to pay higher fees, pay higher taxes, and—even worse—underperform the index.

The outperformance of indexes over active managers becomes even greater as you go out in time. If we go 10 years out, even more active managers underperform the S&P 500. Time magnifies underperformance, especially when compounding works against you in the form of costs. For the long-term, intelligent investor, indexing makes a ton of sense. It's simple, transparent, tax-efficient, and historically effective.



UNITED STATES

PERCENTAGE OF LARGE-CAP
FUNDS THAT UNDERPERFORMED
THE S&P 500

5-YEAR

75%

3-YEAR

72%

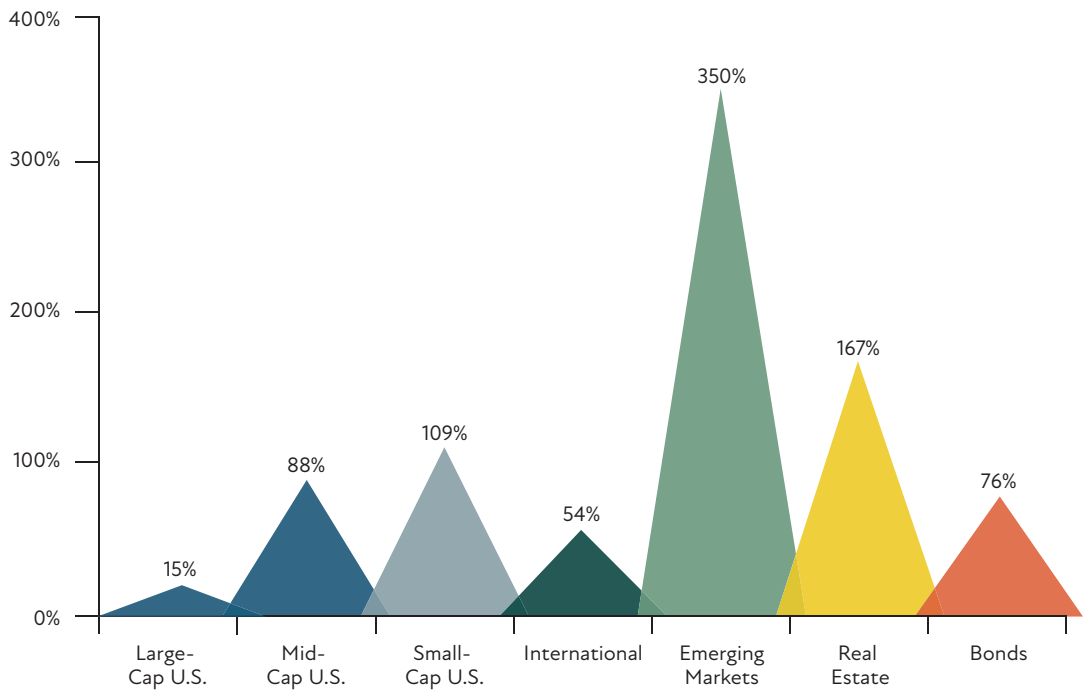
Why Not Just Invest in the S&P 500?

Now we can't just throw all our money in an S&P 500 index fund, because there are long periods of time where large U.S. companies, which is what the S&P 500 is made up of, don't do well. Even great strategies have off years, and overexposure to any single sector or region can leave you vulnerable. So it makes sense to invest in multiple index funds across investment types, including large and small stocks in the United States and overseas. Doing so broadens your exposure and cushions your portfolio from localized economic slowdowns.

For example, if we look at the time period from 2000 to 2010, large-cap U.S. stocks earned 15%. At the same time, mid-cap U.S. stocks, small-cap U.S. stocks, international, emerging markets, real estate, and everything else did incredibly well. If you were diversified during that time, your portfolio likely still grew while the S&P stagnated.

Of course if we look at the last 10 years, large-cap U.S. stocks have done better than everything else. Things change—and they change without notice. Trying to predict the next winner is a gamble. Diversification is your insurance against being wrong. Avoid putting all your eggs in one basket! Especially when there are so many baskets to choose from.

10-Year Index Returns 2001–2010.



The Quilt Chart: A Visual Lesson in Diversification

The “quilt chart,” also known as the Callan Periodic Table of Investment Returns, offers a striking visual representation of how different asset classes perform from year to year. Each color-coded “patch” corresponds to a different investment category (such as U.S. stocks, bonds, international equities, or real estate), and the patches are rearranged annually based on performance, with the top-performing asset class rising to the top and the worst-performing asset class sinking to the bottom.

What jumps out at you? What becomes immediately clear to me is that no single asset class consistently leads or lags the pack. Leadership rotates unpredictably, and, honestly, attempts to forecast winners based on past performance are more often misleading than helpful.

This ever-shifting mosaic makes a compelling case for diversification. Trying to chase performance by investing only in last year’s winner could easily result in underperformance the following year. Instead, a well-diversified portfolio spreads exposure across a range of asset classes that behave differently in various economic conditions. While this practice may not always produce the highest return in any single year, it reduces overall volatility and helps smooth the investment journey over time. Diversification isn’t about maximizing your returns in a given year. It’s about managing risk and staying invested with confidence through a range of market environments, which aligns your portfolio with your long-term financial plan.

Annual Returns for Selected Asset Classes.

2015	2016	2017
Real Estate 4.48%	Precious Metals 56.29%	Emerging Market Stocks 36.83%
Large Cap Stocks 1.38%	Small Cap Stocks 21.31%	Precious Metals 32.83%
Bonds 0.55%	Mid Cap Stocks 13.80%	International Stocks 25.03%
International Stocks -0.81%	Large Cap Stocks 11.96%	Large Cap Stocks 21.83%
Mid Cap Stocks -2.44%	Emerging Market Stocks 9.90%	Mid Cap Stocks 18.52%
Small Cap Stocks -4.41%	Real Estate 6.68%	Small Cap Stocks 14.65%
Emerging Markets Stocks -13.86%	Bonds 2.65%	Real Estate 3.76%
Precious Metals -39.43%	International Stocks 1.00%	Bonds 3.54%

Large Cap Stocks are represented by the S&P 500 Index, which measures the performance of the large-cap segment of the U.S. equity universe.

Mid Cap Stocks are represented by the S&P 400 Index, which measures the performance of the mid-cap segment of the U.S. equity universe.

Small Cap Stocks are represented by the Russell 2000 Index, which measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

International Stocks are represented by the MSCI EAFE Index (Europe, Australasia, and Far East), which is a widely followed index of common stocks from 22 developed market countries.

2018	2019	2020	2021	2022	2023	2024	June 2025
Bonds 0.01%	Large Cap Stocks 31.49%	Precious Metals 24.50%	Real Estate 45.91%	Precious Metals 7.15%	Large Cap Stocks 26.29%	Large Cap Stocks 25.02%	International Stocks 19.45%
Real Estate -4.22%	Mid Cap Stocks 30.54%	Small Cap Stocks 20.27%	Large Cap Stocks 28.71%	Bonds -13.01%	International Stocks 18.24%	Mid Cap Stocks 15.34%	Precious Metals 15.00%
Large Cap Stocks -4.38%	Small Cap Stocks 25.52%	Large Cap Stocks 18.40%	Mid Cap Stocks 22.58%	International Stocks -14.45%	Mid Cap Stocks 17.23%	Small Cap Stocks 11.54%	Emerging Markets Stocks 14.62%
Mid Cap Stocks -9.06%	Real Estate 23.10%	Emerging Markets Stocks 18.39%	Small Cap Stocks 14.82%	Mid Cap Stocks -17.32%	Small Cap Stocks 16.93%	Real Estate 8.10%	Large Cap Stocks 6.20%
Small Cap Stocks -11.01%	Precious Metals 22.72%	Mid Cap Stocks 16.70%	Precious Metals 14.33%	Large Cap Stocks -18.11%	Real Estate 13.96%	Emerging Markets Stocks 7.09%	Bonds 4.02%
International Stocks -13.79%	International Stocks 22.01%	International Stocks 7.82%	International Stocks 11.26%	Emerging Markets Stocks -19.83%	Emerging Markets Stocks 11.67%	International Stocks 3.82%	Real Estate -0.56%
Precious Metals -14.99%	Emerging Markets Stocks 17.65%	Bonds 7.51%	Emerging Markets Stocks -0.28%	Small Cap Stocks -20.44%	Precious Metals 9.13%	Bonds 1.25%	Mid Cap Stocks -0.58%
Emerging Markets Stocks -15.05%	Bonds 8.72%	Real Estate -11.20%	Bonds -1.54%	Real Estate -25.96%	Bonds 5.53%	Precious Metals -12.47%	Small Cap Stocks -1.79%

Emerging Markets are represented by the MSCI Emerging Markets Index, which measures the performance of stocks in emerging market countries.

Precious Metals is represented by the MSCI World/Metals & Mining (TR Net) Index which measures the performance of U.S. stocks of companies engaged in the exploration and production of gold, silver and platinum-group metals. At Creative, we do not recommend precious metals as an investment. The asset class has historically delivered the worst of both worlds: high volatility and very low returns. No thanks. We include this asset class on the Creative Planning Periodic Table only because it is a major asset class and often covered by the media and discussed with clients.

Bonds are represented by the Bloomberg U.S. Aggregate Bond Index, which covers the USD-denominated, investment-grade, fixed-rate, taxable bond market. The index includes government and corporate securities, mortgage-backed securities, and asset-backed securities, with maturities of at least one year.

Real Estate is represented by the Dow Jones U.S. Select REIT Index, which measures the performance of U.S. publicly traded Real Estate Investment Trusts.

An **ETF** or mutual fund's portfolio may differ significantly from the securities held in the indices. These indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the active management of an actual portfolio.

As of 6/30/2025

Combine Market Risk with Alternative Investments

Diversifying your investment portfolio by combining traditional market assets with alternative investments can help to optimize your returns while managing volatility. Market risk refers to the potential for losses due to factors that affect the overall performance of financial markets. These factors include economic recessions, political instability, changes in interest rates, and natural disasters. While we all know market risk can't be eliminated, I'm here to tell you that it can be effectively managed through diversification and strategic asset allocation.

Alternative investments encompass a broad range of assets outside traditional stocks and bonds. These may include real estate, private equity, or commodities. Real estate can provide rental income and potential appreciation. Private equity offers opportunities for high returns, albeit with higher risk and less liquidity. Commodities, such as oil or agricultural products, can hedge against inflation and diversify a portfolio.

When possible, incorporating alternative investments can enhance portfolio diversification, potentially leading to improved risk-adjusted returns. However, it's important to understand that alternative investments aren't available to all investors. Many are limited to accredited investors or institutions due to their complexity, risk, and regulatory requirements. These investments are also often illiquid, meaning they can't be easily sold or exchanged for cash without a substantial loss in value—which is one reason they may offer an illiquidity premium, or the potential for higher returns as compensation for reduced access to capital.

A well-balanced portfolio combines traditional and alternative assets to achieve an optimal mix of return and volatility. Of course, the appropriate allocation depends on your individual risk tolerance, investment goals, and time horizon.

Buy in the Most Effective Way Possible

It's not just *what* you invest in. It's *how* you invest that can make all the difference. Two people can hold almost the same exact portfolio and walk away with very different results over time, depending entirely on the investment vehicles they used, the fees they paid, how tax-efficient their strategy was, and whether they stuck to a plan or chased headlines. That's why smart investing isn't just about selecting winners. It's about making sure you're buying in the most effective way possible and sticking to a plan.

Fees are the termites of your investment house, slowly, steadily, and quietly eroding your potential returns. Management fees, trading costs, sales loads, advisory fees—they all add up. And while a half-percent here or there might not sound like much, over decades it can snowball into tens or even hundreds of thousands of dollars in lost gains. Whenever possible, keep costs low.

Consistency matters too. A smart tactic that often flies under the radar is automating your investments. Set it and semi-forget it. By contributing a fixed amount regularly (say, every paycheck), you're using a strategy called dollar-cost averaging. When prices are low, your fixed amount buys more shares. When prices are high, your fixed amount buys fewer shares. Over time, this approach can help you avoid buying all your investments at a market high, and it can help smooth out the ups and downs of investing. Making regular contributions helps remove the emotion from investing (and, as we know, emotion is often the enemy of good decision-making!).



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EVERY ASSET CLASS HAS ITS
**WE TEND TO PUT
IN THE AMERI**



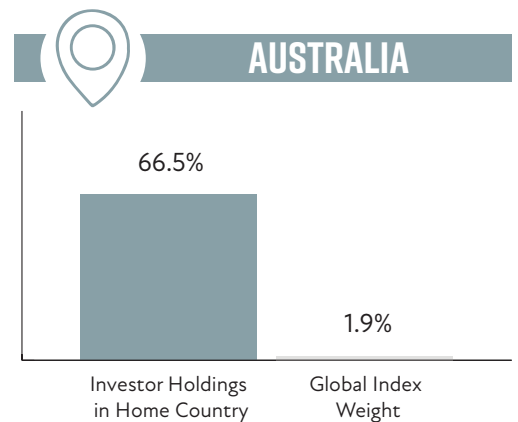
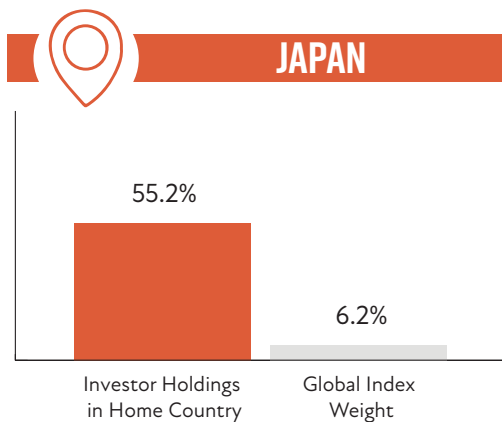
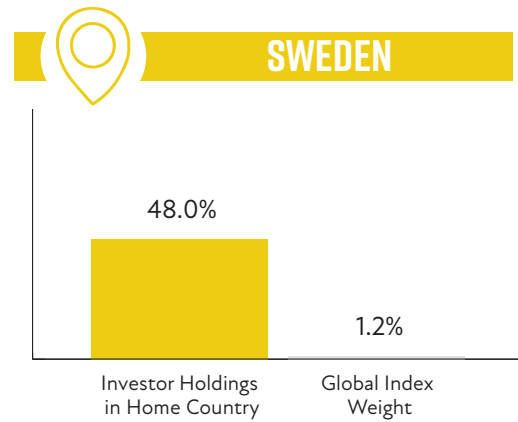
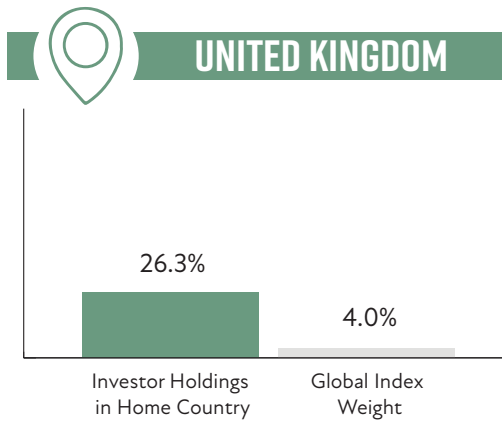
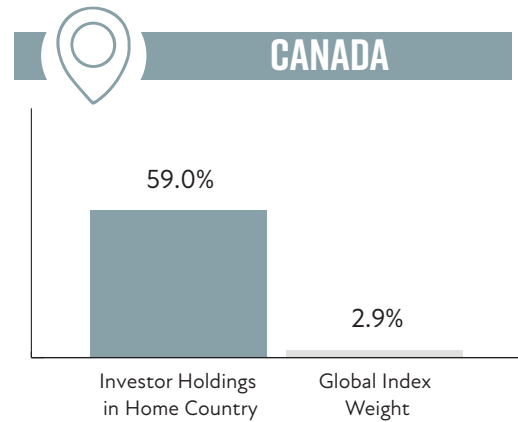
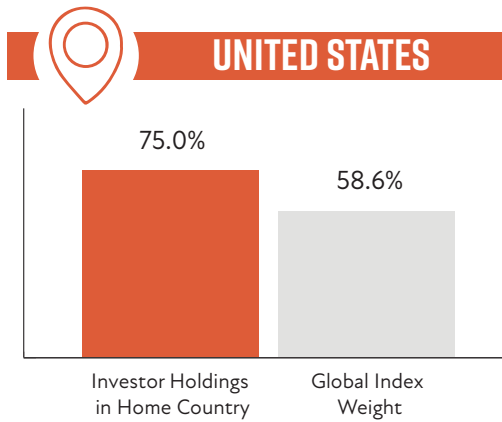
S DAY, BUT AS AMERICANS
**PUT TOO MANY EGGS
IN ONE BASKET** ”

Investor Imbalance: The Home Bias

The average American has about 75–80% of their money in U.S. stocks with very little, 20–25%, in international stocks. This is known as home bias, and it's a common behavioral tendency worldwide. But there are just a couple thousand U.S. stocks, and there are more than 6,000 stocks overseas. That means by staying too U.S.-centric, you're ignoring the majority of global investment opportunities.

This home bias is not unique to American investors. If we look at the average Swede, they have half their money invested in their country even though Swedish stocks make up just 1% of international markets. Canadians have 59% invested in their backyard even though Canadian stocks make up just 3% of the markets. In the United Kingdom, 26% is in their backyard even though it makes up only 4% of international markets. And in Australia, 66.5% of their money is invested in their own country's portfolio even though Australian stocks make up less than 2% of global stocks. We can see the same thing in Japan. This is a global pattern, and it's driven by familiarity, not rational strategy. All over the world, investors are biased toward their own backyard.

The smart investor, however, actively works against this bias. Risk and opportunity don't stop at your country's borders, and neither should your portfolio.



Data sourced December 2019 to March 2021.

What's the Problem with the Home Bias?

Japan is a great example of what can go wrong having all your investments in your home country. Japan was considered one of the best markets in the world for decades. All kinds of management books came out about how American businesses were going to get destroyed by the Japanese and how American companies should learn from Japanese practices. It seemed like Japan could do no wrong.

And what happened? The stock market went down and didn't recover for more than 30 years. Investors who concentrated their portfolios in Japanese stocks lost decades of potential growth, even as global markets surged ahead. That can happen in any country, which is why you want to have your stocks spread out all over the world. International diversification isn't about chasing performance; it's about protecting against the unknown.

Japan's Nikkei 225 Stock Market Index.



As of 06/26/2025

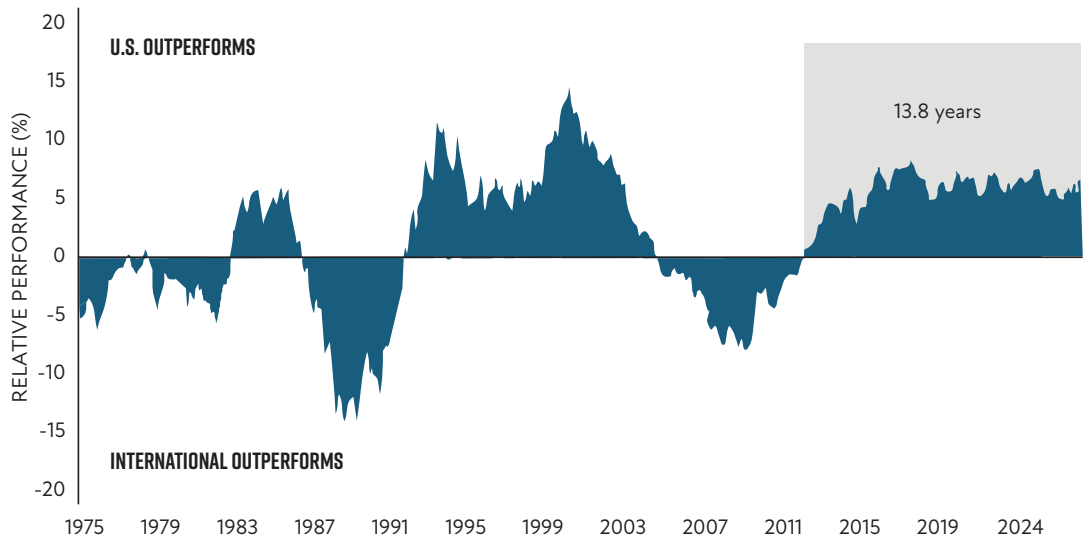
Every Country Has Its Day; Spread Your Investments Out Across the World

You might think you'll always be in whatever markets are doing well. "I'll be in the U.S. when it does well, and I'll be in overseas when it's doing well." But it's really hard to know when that's going to happen. No one rings a bell to announce when the tide is about to turn. And by the time it's obvious, it's usually too late.

We had a more than 10-year run where the U.S. has performed better than international markets. Before that, international did better than the U.S. And before that, you guessed it . . . the U.S. performed better. It's constantly rotating, and it's unpredictable when it's going to change. That's why a balanced global allocation is your best bet—it helps ensure you participate where the growth is.

Markets Are Cyclical

U.S. Equity vs. International Equity 5-Year Monthly Rolling Returns | 1975–2024.



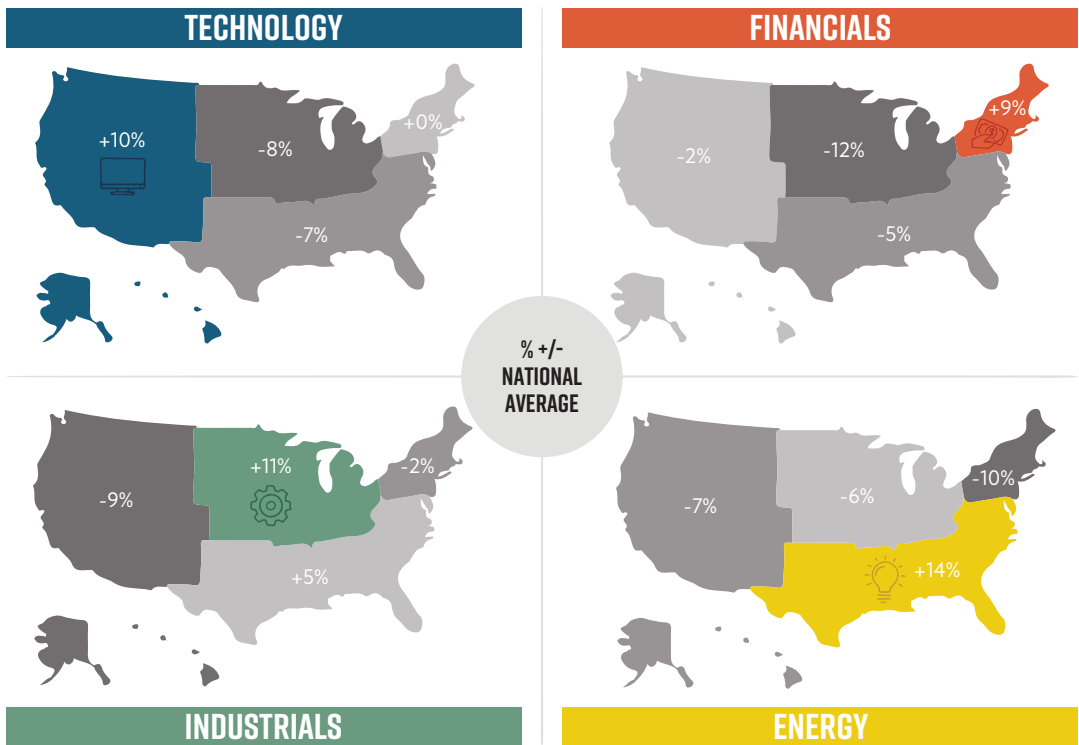
Backyard Bias

This bias toward investing in your backyard also applies when it comes to regions in the U.S., which can result in wildly off-balance portfolios.

We know investors in the Northeast are overweighted toward financial stocks because that's where most financial companies are based. Investors in the South are more invested in energy stocks for the same reason. Likewise, investors in the Rust Belt are overweighted in industrials, and those on the West Coast are overweighted in tech companies.

Why do people do this? It's all about familiarity. We tend to buy what we know. It feels safer, even if it's not actually diversified or well-balanced. A good investor challenges this notion to ensure a well-diversified portfolio, as it's very common for certain sectors to outperform or underperform for long periods of time. Smart investing often requires us to step beyond what's familiar and instead choose what's prudent.

Likelihood of Owning Stocks in an Industry vs. National Average
As of May 2019.



The Importance of Asset Allocation

All investors' allocations should be determined based on their needs. Therefore, you need a customized plan that aligns with what you're looking to achieve. No two investors are the same, so no two portfolios should look identical.

If you need to earn a specific rate of return over the next 15 years to reach a specific goal, you should be invested in the combination of asset classes that has the highest probability of making that happen. It's not about chasing returns; it's about achieving outcomes. And you know what your needs will be, because you have a financial plan!

Your financial plan reveals where you are today and what goals you want to achieve while also showing how much you're able to save (as well as any outside sources of income). Put that all together and you can back into the rate of return you'll need to be able to accomplish your goals. This reverse-engineering approach keeps your investment strategy rooted in reality.

It doesn't matter if you're starting out at age 50 or 60; your need, not your age, determines the allocation.

The Mixture of Assets Defines the Spectrum of Returns
Best, Worst, and Average Annual Returns for Various Global Stock/Bond
Allocations | 1901–2022.



A Brief Overview of Different Asset Classes

As mentioned, understanding the various asset classes and determining which align with your financial goals and risk tolerance is a crucial step in building a robust investment portfolio. Asset classes are categories of investments that exhibit similar characteristics and behave similarly in the marketplace.

Think of asset classes like the different sections of a grocery store. Just as you might find dairy, produce, meats, and dry goods grouped together based on their nature and use, investments are grouped into asset classes based on shared traits.

The primary asset classes include equities, fixed income, cash and cash equivalents, real estate, and alternative investments.

Equities, or stocks, represent ownership in a company and offer potential for growth through capital appreciation and dividends.

Fixed income, such as bonds, are debt instruments that provide regular interest payments and return of principal at maturity, generally offering more stability than stocks.

Cash and cash equivalents are highly liquid assets, like savings accounts or money market funds, useful for short-term needs and emergency reserves.

Real estate involves investing in property that can provide income through rent and potential appreciation over time.

Alternative investments include assets outside the traditional categories, such as commodities or private equity, which can offer diversification benefits.

Your investment choices should align with your financial objectives and comfort with risk. Consider factors like your investment horizon, capital needs, income needs, and emotional capacity to handle market fluctuations. For instance, if you're a younger investor you may be able to afford to take on more risk with a higher allocation to equities, whereas if you're nearing retirement you may prefer the stability of bonds.

Diversifying your investments across various asset classes can help manage risk and reduce the impact of volatility on your portfolio. Each asset class responds differently to economic events, so a well-diversified portfolio can provide more consistent returns over time.

Regularly reviewing your asset allocation helps ensure it remains aligned with your goals and risk tolerance. And market movements can shift your portfolio's balance, so rebalancing (or adjusting your holdings to maintain your desired allocation) is essential to stay on track.

In the next several pages, I'll break down some of these asset classes in more detail.

Private Equity

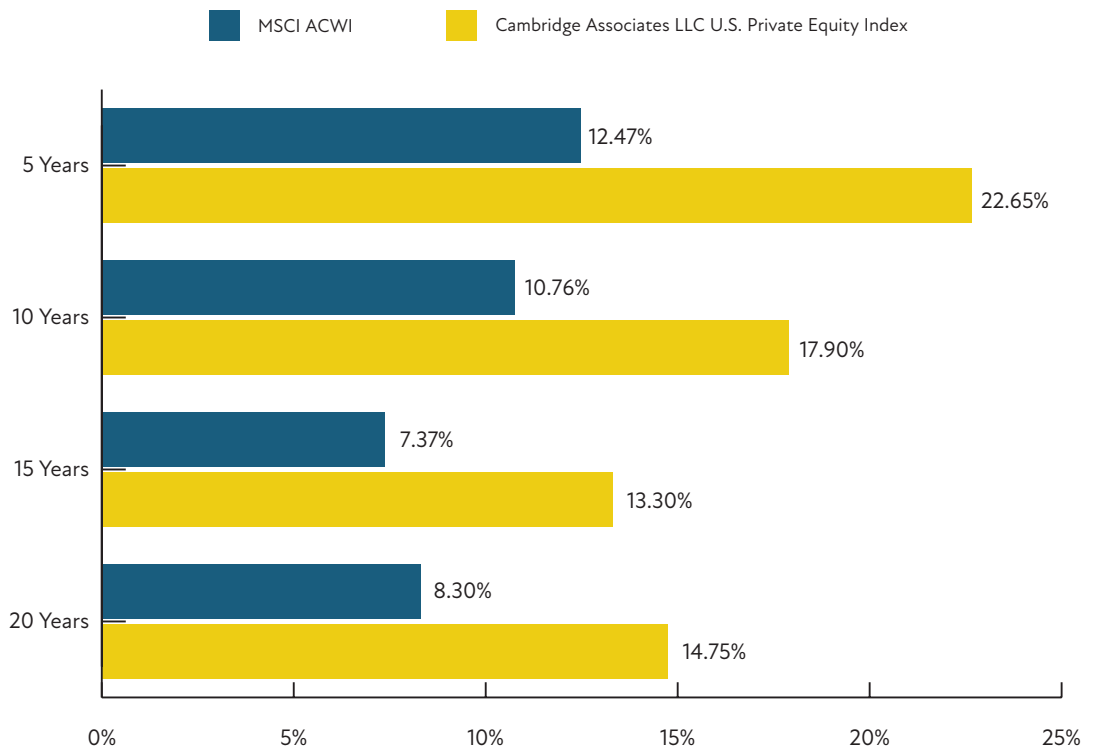
One of the most common and well-known alternative investments is private equity, which is basically when a firm sets up a fund that buys private businesses. Unlike publicly traded stocks, these companies aren't listed on exchanges, making them less liquid but potentially more flexible.

After a private equity firm buys companies to seed a fund, it grows the businesses and then sells them, sometimes taking them public and sometimes selling them to other private buyers, like another company or another private equity fund. Why do people, especially those with a lot of money, invest in private equity? Because history tells us that top private equity firms have exhibited an ability to outperform the stock market.

Some attribute this outperformance to a private equity firm's ability to enter and exit a business at their own pace or to the leverage (borrowing) private equity firms use to purchase businesses, while others attribute it to the perceived value that can be unlocked in private markets. The private equity space also has its downsides, as most require accredited investor or qualified purchaser status (\$1 million net worth or \$5 million in investable assets, respectively), the funds are illiquid (meaning you can't sell anytime you want), and outperformance is far from a given. So while the returns can be compelling, this isn't a fit for everyone; it's a high-risk, high-barrier strategy.

However, for sophisticated high-net-worth investors, private equity is at least worth a serious look. It can offer access to unique opportunities not found in traditional markets but should only be pursued with professional guidance and careful due diligence.

Public vs. Private Equity Returns
MSCI AC World Total Return and Global Buyout and Growth Equity Index | as of
March 2022.



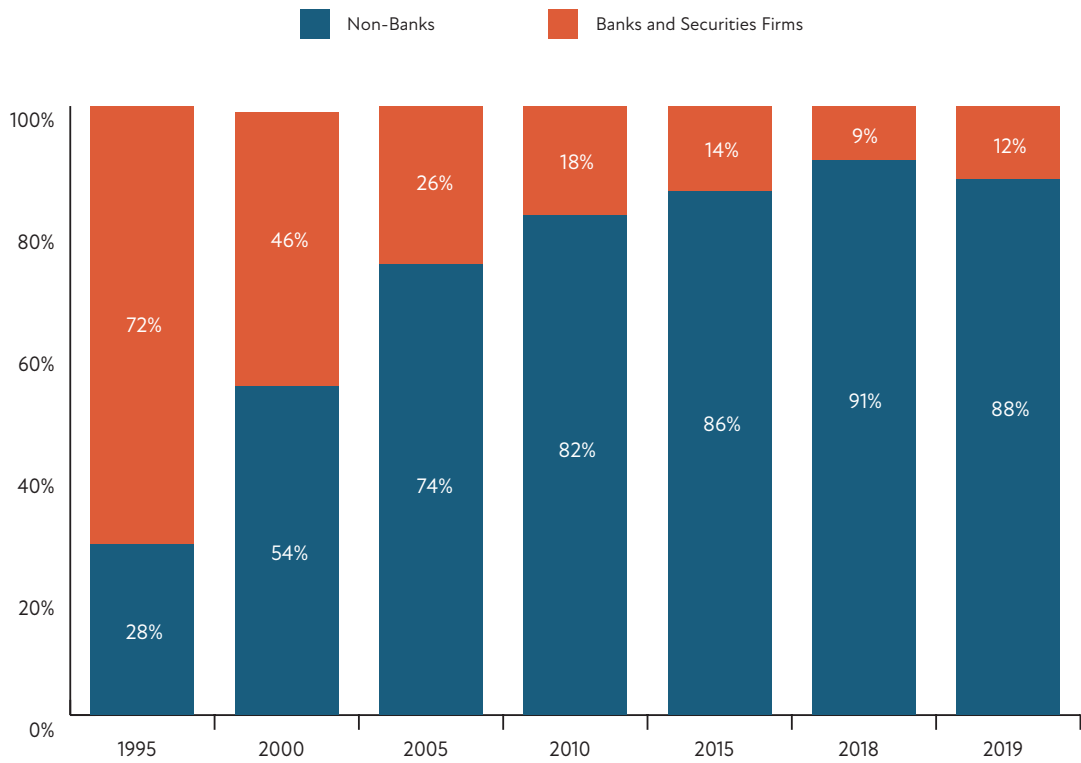
Private Lending

Private lending is the private version of bonds. If you're a private business with revenues between \$25 million and \$2 billion, a loan may be difficult to find.

So, what do you do? You go to a private lending fund usually made up of a bunch of consultants that are going to review your business in order to make sure they're going to get their money back. They'll collateralize your business and make sure they're protected the best they possibly can be. They'll probably put themselves in front of other people that have lent you money. And then they'll loan you money.

And because you're not public, they'll loan you money at a much higher rate than if you had access to the public markets. For the investor, this means the potential for higher yields, but it also comes with increased risk, less transparency, and more complexity. As with private equity, this is a space that rewards careful selection and proper diversification.

Primary Lending Market (%)
As of June 20, 2019.

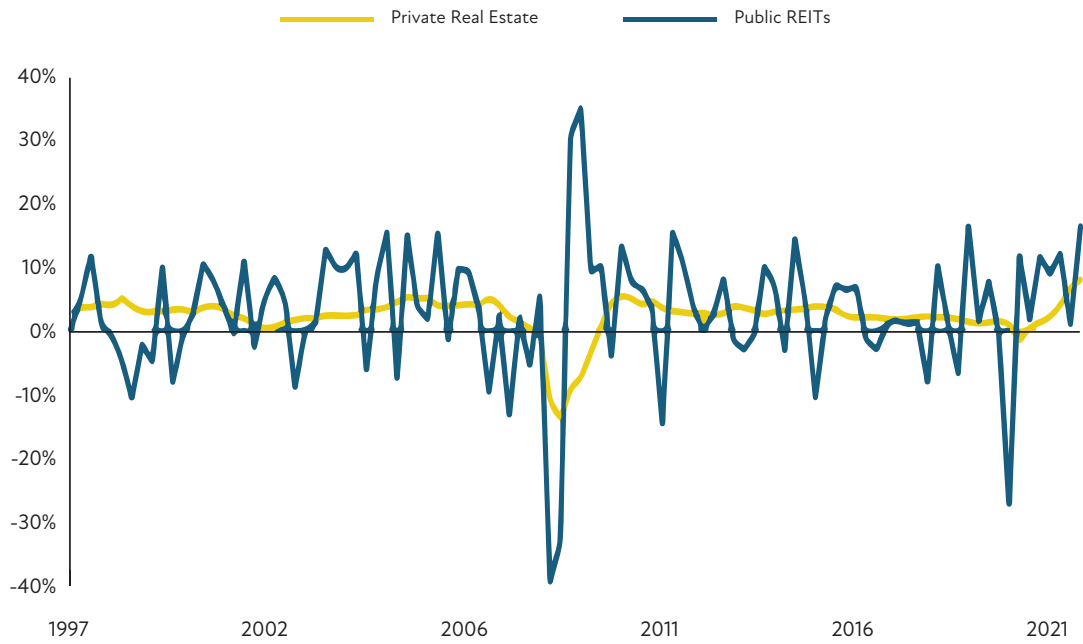


Real Estate

While most investors will find a publicly traded ETF to be more than adequate to cover the real estate portion of their portfolio, some find private real estate to be an alternative with significant benefits. ETFs offer liquidity, simplicity, and diversification, making them ideal for passive investors. But private real estate gives you more control over asset selection, timing, and strategy.

Private and publicly traded real estate have similar returns, though private real estate certainly comes with more hassle. However, private real estate investors can realize benefits by choosing their entry and exit points—and how they use leverage—by getting very specific about the markets where they want exposure and controlling the timing of tax consequences. That flexibility can allow savvy investors to structure deals in ways that align with their broader financial plans, especially in terms of income, timing, and taxation.

Quarterly U.S. Real Estate Returns Private vs. Public Markets | as of December 2021.



Strategies for a Down Market

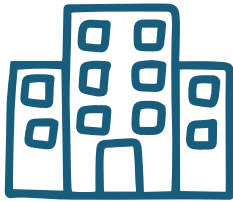
Let's assume you buy Property 1 for \$100,000, then during the pandemic the value goes down to \$70,000. You'll have a \$30,000 loss when you sell. After selling, you purchase Property 2 for \$70,000. These two properties are essentially the same. It's March in the middle of the pandemic, so property values are still down. But what happened next? Well, we know the market recovered. The property climbed to \$100,000 very quickly. In fact, let's say it's now worth \$120,000. This example illustrates how volatility can create opportunity when approached strategically, especially in real estate.

So, looking at the buy-and-hold investor, they started with Property 1 at \$100,000, followed it down in value to \$70,000, then followed it back up to \$120,000. They're pretty happy, right? They started with \$100,000 and now it's worth \$120,000. Hurray!

But the sophisticated investor sold Property 1 when it dropped in value to \$70,000 then walked across the street and bought Property 2 for \$70,000. It too recovered to \$120,000. So they have the same \$20,000 profit, but on their tax return they can also claim a \$30,000 loss. Why? They sold Property 1 when it was down and bought the similar Property 2. That's tax-loss harvesting. This approach reduces your tax bill while preserving your market exposure and is an elegant way to turn market dips into long-term advantages.

Tax-Loss Harvesting: An Example.

PROPERTY 1



Purchase Property 1 for \$100,000



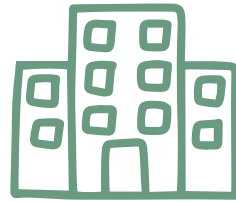
Property 1 goes down in value to \$70,000



Sell Property 1 and capture a \$30,000 loss



PROPERTY 2



Purchase Property 2 for \$70,000



Property 2 goes up in value to \$120,000



\$30,000 loss on tax return from sale of Property 1, but in real life you have a \$20,000 gain



Sell and Replace

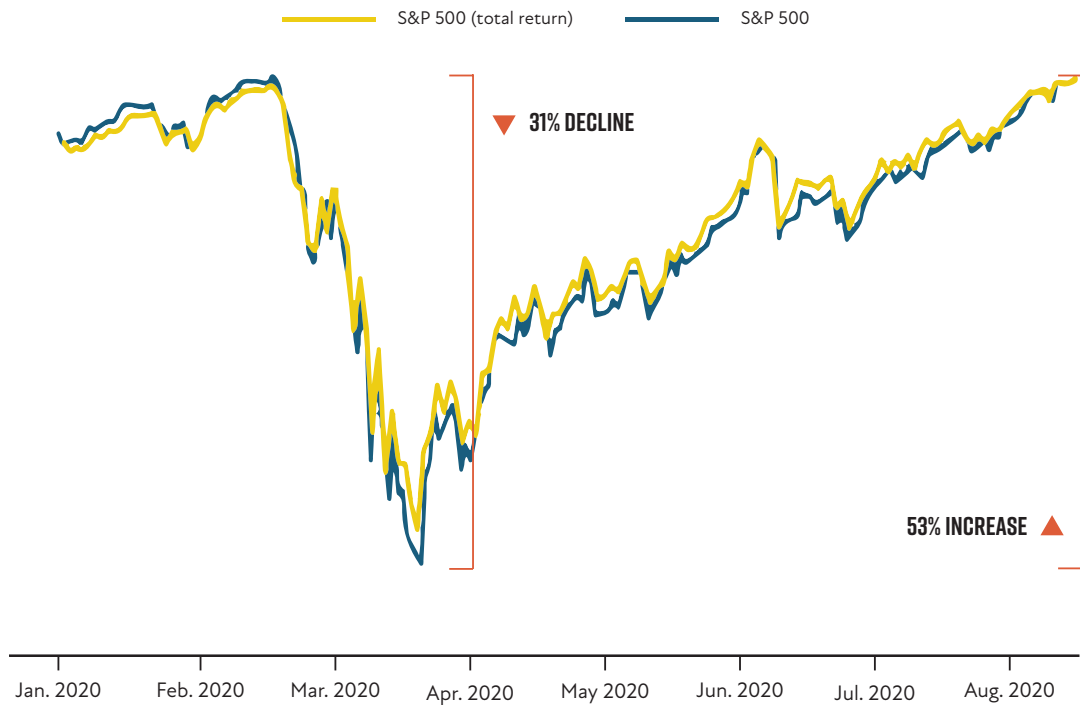
This same concept happens in the stock market. The S&P 500 went down 31% from the beginning of 2020 to the bottom of the pandemic and even went a couple points lower intraday sometimes. What did we do at Creative Planning? During that rundown, we were selling positions and shifting to similar positions that were highly correlated. This is a core part of active tax management: making smart, intentional trades that create real tax benefits without sacrificing portfolio strategy.

As the market recovered, our clients saw gains for the most part and showed losses on their tax returns. So even though they had gains in the real world, they were able to get a tax break. But you have to be proactive and take advantage of the opportunity during a market decline. Waiting too long or acting too late can eliminate the benefits, as these strategies work best when implemented swiftly and strategically.

So when the market goes down, sell and replace positions. It's a great way to get an after-tax benefit. It's also a mindset shift: learning to see volatility not as a threat but rather as a planning opportunity.

Tax-Loss Harvesting

When your investment in a stock or index fund drops, sell your position and immediately purchase something similar. You stay in the same type of investment and can lock in the loss for your tax return.



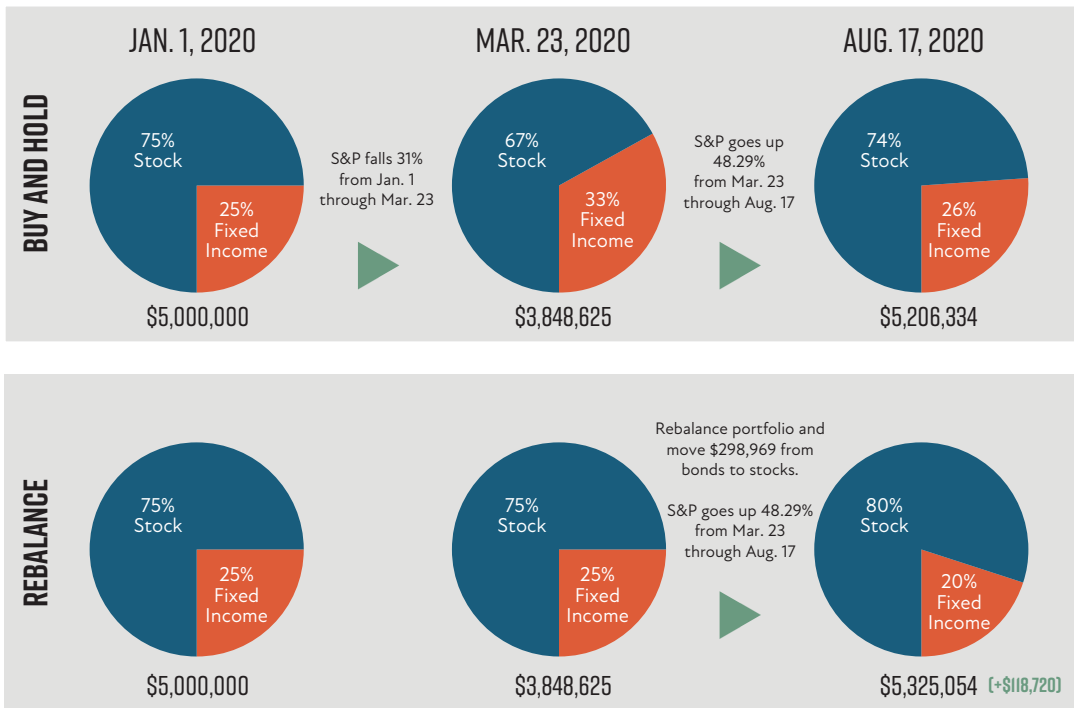
Opportunistically Rebalance

Some people never rebalance. Some people rebalance once a year. At Creative Planning, we opportunistically rebalance. Let me explain what that means. Let's go back in our time machine and pretend it's January 1, 2020, and an investor has \$5 million. The portfolio is 75% stocks and 25% bonds. What happens? The stock market goes down, and now the portfolio is two-thirds stocks and one-third bonds. In this scenario, the portfolio has drifted away from its target risk profile—and with it, the investor's long-term strategy.

So, say the investor does nothing and the market recovers by August. The value of their portfolio is now \$5.2 million, so they have a profit and they're happy. But they missed an opportunity, because if they had rebalanced during the drop, they might have done significantly better.

For most people, it made sense for us to sell bonds and buy stocks when the market dropped. So they started out with the same \$5 million, 75% in stocks and 25% in bonds. But when the market went down, we rebalanced. We got it back to 75% stocks by selling bonds and buying stocks. By August 17, this investor had \$5,325,000 in their portfolio. They made \$118,000 more. Why? While the market was down, they sold bonds and bought stocks. So, it's during market turmoil that you really want to take advantage of rebalancing—not at the end of the year—or it will be a missed opportunity. Rebalancing when others are fearful is a disciplined way to buy low and position your portfolio for the rebound.

Rebalancing



Re-Examine Everything on a Periodic Basis

Financial planning isn't a one-time event, right? It's an ongoing process. Regularly reviewing and adjusting your financial plan helps ensure it remains aligned with your goals, life changes, and market conditions. Life is dynamic, and so are your financial needs. Major life events (such as marriage, the birth of a child, a new career, or retirement) can significantly impact your financial goals and risk tolerance. Periodic reviews help you adapt your plan to these changes.

It's also important to regularly evaluate the performance of your investments. Are they meeting your expectations and contributing to your financial objectives? If certain assets consistently underperform, it might be time to consider reallocation.

Because tax laws and your personal tax situation can change over time, you'll want to regularly review your tax strategies to optimize tax efficiency and take advantage of new opportunities or deductions.

And remember, as your life changes, your insurance needs follow suit. Make sure you have enough coverage to adequately protect your assets, income, and loved ones. Regular review can help identify gaps or redundancies in your insurance portfolio.

Estate planning is yet another area that benefits from periodic updates. Evolving wishes or life circumstances may necessitate updates to your will, trusts, or beneficiary designations.

Regular meetings with a qualified financial advisor can provide valuable insights and guidance. Your advisor can help you navigate complex financial decisions and assist in keeping your plan on track. By consistently re-examining your financial plan, you can adapt to life's changes and stay aligned with your long-term objectives.

Advanced Planning for Affluent Individuals

We've covered the basics up to this point, but for affluent individuals, financial planning moves beyond accumulation into the realms of customization, optimization, and legacy building. With more substantial assets comes greater complexity—and greater opportunity. Advanced planning addresses issues such as sophisticated tax management, personalized investment structures, private market access, and inter-generational wealth transfer.

One emerging tool for affluent investors is direct indexing, which allows individuals to own individual securities that closely replicate or mimic an index rather than a single ETF or mutual fund. This strategy enables highly personalized portfolios and offers significant tax advantages through tax-loss harvesting, where underperforming securities are sold to offset gains elsewhere in the portfolio. Unlike traditional indexing, direct indexing can be customized to exclude specific sectors or companies, align with environmental, social, and governance preferences, or tilt toward factor exposures.

Affluent investors also increasingly seek access to private markets (including private equity, venture capital, private credit, and real assets, such as infrastructure and farmland). These investments can offer enhanced return potential and diversification beyond public markets, but the downside is that they typically require higher minimum investments, longer lock-up periods, and thorough due diligence. So, incorporating private market exposure requires careful attention to liquidity needs and overall asset allocation.

As you might guess, estate planning for high-net-worth individuals goes beyond wills and basic trusts. Vehicles such as intentionally defective grantor trusts (IDGTs), spousal lifetime access trusts (SLATs), and generation-skipping trusts (GSTs) can help reduce estate tax exposure while maintaining flexibility and control. And when used in combination, these tools enable the transfer of significant wealth across generations in a tax-efficient manner.

Here's the thing: coordination is critical. At this level of complexity, affluent individuals benefit from a team-based approach, working with a financial advisor, a CPA, an estate attorney, and often an investment consultant or philanthropic advisor. Importantly, strategic alignment among these professionals helps to ensure consistent execution, reduce redundancy, and avoid costly oversights.

It's important to emphasize that advanced planning isn't about complexity for complexity's sake. It's about intentionality. By leveraging innovative tools, private investment access, and strategic structures, affluent individuals can protect and grow their wealth, minimize unnecessary tax burdens, and create a legacy that reflects both their financial goals and personal values.

Section Recap: The Fundamentals of Investing

You've journeyed through the foundational principles of investing, laying the groundwork for financial empowerment. Reflect on the importance of understanding your current financial situation. Knowing where you stand is the first step toward where you want to go. Remember how setting clear, specific goals can guide your investment choices, and how aligning your strategy with these goals can lead to more meaningful outcomes.

Consider the various investment vehicles we explored. Each has its role, benefits, and risks. Think about how diversification (spreading investments across different asset classes) can help manage risk and enhance potential returns. Recall the discussion on inflation and its impact on purchasing power, underscoring the need for investments that outpace inflation over time.

As you move forward, keep these fundamentals in mind. They're not just concepts; they're tools to help you make informed decisions, build confidence, and take control of your financial future.