Questions You Were Afraid to Ask

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Most people have probably heard the phrase, “The only bad question is the one left unasked.” But, when it comes to your finances, there’s no such thing as a bad question!

At some point, everyone has a question that they keep to themselves. Maybe it’s because they’re afraid the question is so basic it would be embarrassing to ask. Maybe it’s because they feel they should know the answer already and don’t want to look ignorant.

This report will hopefully answer some questions you may have had, but have been afraid to ask.

Question #1. What’s the Difference Between the Dow, S&P 500, and NASDAQ?

You hear these terms every day when you turn on the news – ‘The Dow closed at 31,000 today’. Or ‘The S&P closed at 3900’. Or ‘The NASDAQ rose 1.6% as tech shares…..’ You know that all those terms refer to “the stock market.” But what, exactly, do they mean? Why is the Dow always so much higher than the S&P? Does that mean it’s better? And what makes the NASDAQ different from the others? The good news is that the answers to these questions are really quite simple. We just need to define some terms! The Dow, S&P 500, and NASDAQ Composite are all indexes. An index tracks the performance of a group of securities, like bonds or – in this case – stocks. Indexes are handy tools because they enable investors to compare current price levels for different segments of the market with past ones, so they can measure performance over time. Some indexes track extremely narrow segments of the market, like companies of a specific size or sector. Others are much broader. What makes the Dow, S&P 500, and NASDAQ different from another is what each index measures.

So, let's take each one at a time.

1. The Dow Jones Industrial Average: This index tracks the performance of 30 of the most prominent companies listed on stock exchanges in America. (Think companies like Apple, Coca Cola, and Walmart.) Because it is so narrow, the Dow isn't always a good indicator of how the overall stock market is doing. But because the companies inside the Dow are so important or well-known, many people have money invested in them. That's why the media pays so much attention to how the Dow is doing.
2. The S&P 500: This index measures 500 of the largest companies listed on American stock exchanges. Now, a quick note: A stock exchange is where traders actually buy and sell stocks. The New York Stock Exchange is the biggest and most famous, but there are many exchanges across the world. Because the S&P 500 tracks so many more companies than the Dow, across a broad range of industries, it is often considered a more reliable snapshot of the overall economy than the Dow.
3. NASDAQ Composite: This index tracks nearly all the stocks listed on the Nasdaq Stock Exchange and is heavily weighted towards technology companies.
4. There are plenty of other indices, too. For example, one of the most important is the…

   Russell 3000: You don't hear about the Russell as much as the previous three, but this index represents nearly the entire U.S. stock market. It includes 3,000 of the country's largest publicly held companies. (There's also the Russell 1000 & the Russell 2000)
5. S&P/TSX Composite: This is the most important index in Canada. It tracks the performance of the 250 largest companies listed on the Toronto Stock Exchange. You can think of it as the Canadian equivalent to the S&P 500.

Question #2. Why is the price of the Dow so much higher than the S&P 500?

Ok. Before answering this, go to your phone or your computer, and open your internet browser and search for “S&P 500.” The first result will show the current price of the index. Make a note of the number. Next, search for “Dow Jones.” I’m sure you notice how much higher it is? As in, tens of thousands of dollars higher. As you know from the last segment, the Dow tracks the performance of 30 of the most prominent companies listed on stock exchanges in America. The S&P 500, meanwhile, measures 500 of the largest companies listed on American stock exchanges. This is why many investors often wonder why the Dow’s total price is so much higher than the S&P, even though the latter contains hundreds more companies. The answer has to do with how these two indices are calculated.

The Dow, for example, is calculated by taking the 30 stocks in the average, adding up their prices, and then dividing the total by the “Dow Divisor.” Early in the Dow’s history, this divisor was simply the number of companies within the average. Today, the divisor is adjusted regularly to factor in changes to the list of companies, stock splits, and other events that could have an impact on the overall average. As of this writing, the Dow Divisor is 0.15172752595384. Because the divisor is less than one means it technically functions as a multiplier so in effect, calculating the Dow’s value essentially means multiplying the sum of each company’s price by roughly 6.5. Every $1 change in price to a particular stock within the Dow equates to a movement of 6.59 points on the Dow. This multiplication effect is partly why the Dow’s value is so much higher than the S&P 500’s. So even though the S&P contains hundreds more companies, its overall price is lower because of how it’s weighted.

In an unweighted index, every company has the same impact on the overall index, no matter its price or how many shares are available. The price of the index is determined by simply adding up every company's stock price, then dividing by the total number of companies in the index. For example, imagine an unweighted index containing only three companies. If Company A went up 15%, Company B went up 10%, and Company C went up 5%, the index itself would be up 10%.

Most indices don't work like this, however. That's because not all companies are equal. Some are worth much more than others or have a much higher volume of shares available to buy or sell. For that reason, a simple mean average is a pretty unnuanced way of looking at the overall index. For this reason, most indices are weighted. This means the average is calculated by putting more importance – or weight – on some numbers than others. It's a more accurate way of looking at data. The S&P is a capitalization-weighted index, and the Dow, by contrast, is a much simpler price-weighted index. That means each company is weighted according to its market capitalization……which is the company's share price multiplied by the number of shares available to buy or sell. As you know, some companies are simply bigger than others. Typically, this means they have more outstanding shares, which means a higher market capitalization and more weight within the S&P 500.

So, what's the result? The price movement of these companies has a much bigger impact on the S&P than that of smaller companies. For these reasons, the divisor that the S&P 500 uses is much higher than for the Dow. In fact, it's currently higher than 8,000. And the equation the S&P uses is much more complex. This is all done to keep the value of the index down to a more manageable level, and to prevent the price movement of a few companies from having an even bigger impact on the overall index than they already do.

Questions You Were Afraid to Ask #3: What do stock ratings mean?

Buy. Sell. Hold. Overweight. Outperform. Strong, weak, reduce, accumulate. These are just some of the ratings you'll often see attached to specific investments, usually stocks. Financial websites love to list them. Talking heads on TV love to recite them. But what are they? A rating is an analyst's recommendation on what to do with a particular stock. Typically, an analyst will research a company by reviewing financial statements, talking with leadership, and surveying customers. Some analysts will also study broader economic trends to try and estimate how the company will be affected by the overall economy. Other analysts may rely heavily on algorithms and mathematical models. Whatever their method, these analysts then prepare a report that discusses how they see the company's stock performing in the near future. Inside that report is a rating. Their advice, distilled down to a single word or phrase, on what their clients should do with the stock in question. The three most basic ratings are: buy, sell, and hold. Buy and sell are fairly obvious. They are recommendations to buy the stock — or buy more of it — or to sell whatever shares you already own. "Hold" essentially means to sit tight. If you already own shares in the stock, don't buy any more, but don't sell, either. So far, so simple. But here's where things can get a little tricky. Since there is no standardized way to rate stocks, pretty much every financial firm will have its own system. That's why you'll often see many variations and degrees of those three basic ratings. For example, think of buy, sell, and hold as umbrella terms. Beneath the buy umbrella, you may sometimes hear terms like moderate buy, overweight, outperform, market perform, add, or accumulate. Under sell, you may see reduce, underweight, underperform, weak hold, moderate sell. "Moderate" essentially means to buy or sell more shares of the stock, but not too much. Same for add/reduce. Over/underweight and over/underperform means the analyst believes the stock will perform somewhat better or worse than the overall market. Weak hold is basically a push – it's probably fine to hold onto your shares, but you can sell if you want to. Sometimes, if an analyst uses all these variations, then a simple buy or sell can then take on a new meaning. That's why you'll sometimes see the terms strong buy or strong sell. This indicates the analyst believes you should either buy or sell as much of the stock as you possibly can. So, now you know what stock ratings mean. But do they matter? Imagine you're shopping online for a new coffee maker. What's the first thing you'd see? Likely, it would be a list of coffee makers with some sort of numerical rating next to each based on all the customer reviews. Now, would you buy the first machine that has a good rating? Probably not. What you would do is look at the first machine with a good rating, and then go from there. For regular investors, that's essentially what stock ratings are good for. They provide a handy place to start. A quick reference. A way to weed out the stocks you don't want to look at immediately versus those you do. But you shouldn't ever make decisions based solely on those ratings. Because, like the customer ratings online, they don't tell the whole story. It's important to remember that a stock rating is just the opinion of one analyst. Others may have different opinions. Also, because there's no standardized rating system, one analyst's "buy" might be another's "hold." An "underperform" at one place might be a "strong sell" at another. And while analysts can be very smart and experienced, rating is not an exact science and can be often used more as a marketing pitch than as a truly objective evaluation. Finally, stock ratings are not specific to you. Consider the coffee maker analogy. One machine might have a rating of 4.3 stars; a second might be 4.0. But when you read the reviews closely, you might see the higher-rated machine is versatile but complicated. The lower-rated machine can't do as much, but it's fast and easy – perfect for that quick cup before work. If that's what you want, the "lower-rated" machine might be better. Stock ratings are similar. They don't address your goals, your risk tolerance, your timeline. And that's why they should never be used as a substitute for having your own customized investment plan.

Questions You Were Afraid to Ask #4: What's the difference between large cap, mid cap and small cap stock?

If you've ever researched a stock or listened to talking heads in the media, you've probably heard terms like "large cap stocks" before. You may also have seen these terms when reviewing your 401(k). If so, you've probably wondered what the word "cap" even means. A stock's "cap" refers to its market capitalization. This is the total market value of a company's available stock shares. In essence, it is a quick and easy way to determine how valuable the market perceives a company to be. To determine a company's market cap, investors look at all the shares the company has made available and then multiply that number by its current stock price. For example, let's say the ACME Corporation has twenty-five million available shares with a current stock price of $50. Twenty-five million multiplied by fifty is 1,250,000,000, so ACME's market cap is $1.25 billion. Now, this number doesn't mean anything on its own. It's when you compare it to other companies that distinctions can be made. That's where the terms large, mid, and small come in. There is no single agreed-upon definition of what makes a company large-cap versus mid-cap, or mid-cap versus small-cap. But generally speaking, many investors break down these categories like this:

- Large-Cap: Market value over $10 billion
- Mid-Cap: Market value over $2 billion
- Small-Cap: Market value over $250 million

So, in our example, ACME Corporation would be classified as a small-cap company. Some investors will make further distinctions. For instance, you may sometimes see the term mega-cap, which is for companies with a market value over $200 billion. At the other end of the spectrum, micro-cap refers to companies with a market value of less than $250 million. When people think about the stock market, they often think in terms of a specific index, like the S&P 500. But different indexes often only contain companies above a specific size. For example, the S&P 500 contains the five hundred biggest companies in the overall market. That means it only includes mega- and large-cap stocks. Another popular index, the Russell 2000, contains only small-cap companies. One reason market cap matters is because it gives you more information about a stock than you can get just from its price. For example, imagine two companies that each have a stock price of $75. The first company has fifty million total shares available. The second company has a billion shares. That means the first company has a total market capitalization of $375 million. The second company's market cap, on the other hand, is $75 billion. So, despite having the same price per share, the first company is a small-cap stock, and the second is a large-cap stock. Why is this important for investors to know? Because a stock's cap can dramatically affect both its potential risk and potential reward.

Generally speaking, large-cap stock companies are not going to grow as fast as a small-cap stock company can. That's because the former simply doesn't have as much room for growth. Largecap companies tend to be older and more well-established. As a result, any future growth will likely be slow and steady rather than fast and explosive.

Small-cap companies, on the other hand, still have the potential to become large-cap companies in the future. That means their potential for growth — and thus, reward — is greater. That said, large-cap companies have also tended to be more stable. They have stronger financial situations, greater brand recognition, and more revenue. That makes their stock price less vulnerable to market volatility. Meanwhile, small-cap companies, even if they're growing fast, may not technically be making any profit at all. Their financial situation may be much weaker. That makes them much more vulnerable…and much riskier for investors. Of course, these are all just generalizations. Large-cap companies can sometimes experience fast growth or even fail, of course. Mid- and small-caps can thrive for years. But as a general rule, there is an inverse relationship between a stock's capitalization and both its risk and return. Understanding that relationship is critical to making good investment decisions!

Questions You Were Afraid to Ask #5: What do terms like *blue chip, value and growth stocks* mean?

If you ever tune into the financial media, you're likely to encounter terms for different types of stocks. Blue-chip is a frequent one; so are value and growth. But what do these terms mean? Terms like these are a kind of shorthand description of a stock's size, history, or risk profile. With a single word, experienced investors can learn a lot about a company's size, potential, and risks. And since every investor has different goals to consider when selecting their investments, some may choose to focus on one type of stock over another. Let's break down each term so you know what they mean if you ever hear them mentioned.

Blue-Chip Stocks. This term refers to stocks from large, financially stable companies with good reputations. (The name comes from high-valued chips in poker, which are often blue in color.) Typically, these companies have a sizeable market capitalization. (As you may remember from my last "Questions" letter, this is the total market value of a company's available shares of stock.) Blue-chip stocks are often household names that everyone would recognize. If you look at the credit card in your wallet, the soda in your fridge, or the labels in your medicine cabinet, you will likely see examples of blue-chip companies. Investors often prefer blue chip stocks for a variety of reasons. First, because these companies are well-established, they are often seen as less volatile. While not guaranteed, blue chip companies tend to last for decades and can often weather recessions. Another reason many investors like blue chip companies is because they often pay regular dividends. A dividend is when a company pays a percentage of their profits to shareholders, usually on a quarterly basis. These dividends can either be reinvested or used as a source of income.

Value Stocks. Imagine there were two fine dining restaurants in your area. One is famous— the kind of place that gets mentioned in travel guides and where people go to propose. The other, located a few blocks away, is a tiny spot that hardly anyone knows about. But it tastes just as good as the touristy place, and best of all, it's so much cheaper. So, you decide to go there more often than not, aiming to enjoy it for as long as you can before the word gets out. Value stocks are similar. The term refers to companies that appear to be undervalued — meaning they are trading at a lower price than they're potentially worth. Investors looking for value usually focus on companies with experienced leadership, steady revenue, a strong competitive advantage, and a low share price relative to their earnings. Value stocks aren't always easy to find, and the very concept of "value" is a subjective one. But the idea is to find companies that could give you great bang for your buck and the potential for long-term growth. Because, like that neighborhood restaurant, once the word gets out and the stock gets more popular, it could rise significantly in price. Of course, the risk of a value stock is that it could stay “undervalued” for a long time.

Growth Stocks. This term refers to stocks that have the potential to skyrocket in price over time. Often, growth stocks are younger companies seeking to set new trends or shake up an industry. These companies focus on growing rapidly and reinvest their earnings entirely into expansion. Since technology is constantly changing, many investors look to up-and-coming tech companies for growth stocks, hoping to score the “next” Apple or Microsoft. But with this potential for growth comes the potential for more volatility. Growth companies are often much riskier than value or blue-chip stocks, because they are younger, unproven, and have less stable finances. For every growth company that succeeds and matures, there may be a handful that fail and disappear. Each of these types have their own pros and cons. Blue chips tend to be reliable, stable, and often pay dividends — but they can be expensive and their potential for growth may be limited. Value stocks have the potential to grow, and are typically not as risky as growth stocks, but may be hard to find. Growth stocks could have the highest upside, but also the most risk and volatility. For these reasons, many investors often seek to diversify by holding all three types, depending on their specific needs and goals.

Question #6. What's better, stocks or bonds?

So, what is a stock, exactly? And how does it compare to other kinds of investments? Even folks with a lot saved for retirement aren't always sure. MANY Americans build wealth and save for retirement through their employers. Maybe they take advantage of a company 401(k) or are awarded company stock as part of their compensation. Either way, they don't spend much time thinking about their investment options, because it's simply not required in order to start investing. As a result, many Americans may have heard of different investment types, or asset classes as they are also known, without truly knowing how they differ, or what the pros and cons of each type are.

When you purchase a bond, you are essentially loaning money to a company, government, or organization.

When you buy stock, you are purchasing partial ownership in a company.

For this reason, stocks are equity investments while bonds are debt investments.

So, before we answer this question, let's examine each.

1) **How Stocks Work**. When you buy a company's stock, you buy a share in that company. And the more shares you buy, the more of the company you own. Generally speaking, stocks can be held for as short or long a time as you wish, but many experts recommend holding onto your shares for longer-term if you anticipate their value will rise over time. For example, let's say ACME Corporation – which makes roadrunner traps – sells their stock for $50 per share. You invest $5000 into the company, which means you now own 100 shares. Now, fast forward five years. ACME's business has grown, investors like what they see, which consequently puts their stock in higher demand. As a result, the stock price is now $75 per share. Because you own

equity in the company, you benefit from its growth, too – and your investment is now worth $2,500 more, for a total of $7,500.

2) **The Pros and Cons of Investing in Stocks**. Every investment has its strengths and weaknesses, and stocks are no exception. The single biggest benefit to investing in stocks is that, historically, they outperform most types of investments over the long term. Because stocks represent partial ownership in a business, finding a strong company that performs well over the course of years and decades can be a powerful way to save for the future. Additionally, stocks are a fairly liquid investment. That means it can potentially be easier to both buy and sell them whenever you need cash. Many other investment types, like bonds, can be more difficult or costly to sell, in some cases locking you in for the long term. But these pros are just one side of a double-edged sword. You see, with the possibility of a higher return comes added risk. While the stock market has historically risen over the long-term, individual stock prices can be extremely volatile, climbing and falling daily, sometimes dramatically. For example, if a company underperforms relative to its expectations, the stock price can go down. Sometimes, companies can even fail altogether, and it’s possible for investors to lose everything they put in. As the saying goes, risk nothing, gain nothing — but it’s equally true that if you risk too much, you can leave with less. Furthermore, to actually realize any gains you’ve made, you must sell your stock, which can trigger a significant tax bill.
3) **How Bonds Work.** Bonds potentially rise in value and might be sold for a profit, but generally speaking, that’s not what most investors are looking for. Instead, bondholders are hoping something a bit more predictable: Fixed income in the form of regular interest payments. As previously mentioned, bonds are a

loan from you to a company or government. That loan might last days or years – sometimes even up to 100 years – but when the bond matures, the company pays you back your initial investment. In the meantime, the company typically pays you regular interest, just like you would when you take out a loan. Depending on the type of bond you buy, these payments can be annual, quarterly, or monthly. Interest payments are why investors often look to bonds as a source of income.

4) **The Pros and Cons of Bonds.** Income isn't the only "pro" when it comes to bonds. Bonds tend to be less volatile than stocks. Also, since the company that issued the bond is technically in your debt, you would be among the first in line to get at least some of your money back even if the company enters bankruptcy. That's not the case with stocks. But just because bonds are less volatile doesn't mean they're risk-free. Bonds may rise or fall in face value as interest rates change. Face value is typically calculated by seeing what others would likely be willing to pay to take over that debt from you. So, for example, if you bought a bond in Year 1 only to see interest rates go up in Year 2, the value of your bond will likely fall. That's because you are missing out on the higher interest rate payments you would have had if you bought the bond in Year 2 instead. That's important, because if you wanted to sell your bond before it reached maturity, you would probably have to settle for a lower price than what you initially paid.
5) **Stocks and Bonds Together**. As you can see, stocks and bonds each have different advantages and disadvantages. It's why, for many investors, the answer is, "Why not both?" Far from being competitive, stocks and bonds are actually considered complementary. That's because each brings things to the table the other doesn't. Furthermore, stocks and bonds are what's

known as non-correlated assets. That means they don't necessarily move in tandem. Which means just because stocks are down doesn't mean bond values will fall, too. This kind of non-correlated movement is not guaranteed, just as what's true in the stock market right now.

Questions You Were Afraid to Ask #7: What's the Difference Between Passively Managed Funds and Actively Managed Funds?

If you're investing in, say, an IRA, most of the fund choices you'll see will fall under one of two categories: Passive vs Active. Let's start with the latter. An actively managed fund is exactly what it sounds like: A fund where a manager takes an active role in selecting which securities to buy or sell, and when. Different managers have varying styles and philosophies. For example, some may specialize in finding companies they believe are undervalued, which means they can be bought at what is believed to be a good price. Others may try to find companies they think are likely to grow by a significant amount. Some managers may specialize in certain industries or market sectors. You get the idea. Either way, with active management, you are paying for one of two things:

1) The possibility that the fund will "outperform" the market. This means the fund could do better over a specified period than a benchmark index – like the S&P 500 – that it measures against.
2) The possibility that the manager will be able to protect you against undue risk or limit losses during times of market volatility. This idea more generally fits the purpose of hedge funds than the standard mutual funds you'll usually see in your IRA or company 401(k)

The possibility of outperforming the market comes with some tradeoffs, however:

1) Actively-managed funds often come with more – and higher – fees than passively managed funds. That’s because the manager must charge for his or her services.
2) While it’s possible for a manager to outperform, it’s also possible to “underperform.” When that happens, you are essentially paying more for less.

Now, let’s look at passively managed funds. Here, there is no “active” or research-based management decisions to the buying or selling of holdings. Instead, the fund invests in a specifically designed portfolio and then stays put. The fund may “rebalance” at some other set time frame, often quarterly or annually. This is to reset to its original objective or to match its index better. Otherwise, everything is held for the long-term. These days, many passive funds are index funds. This is when the fund’s portfolio is built to try to match a target index, like the S&P 500. So, if you essentially want to replicate a broader stock market, again like the S&P 500, index funds could be the way to go.

Passive funds come with the following advantages:

1) Typically, much lower cost, especially with index funds. Because there’s nobody actively picking stocks, the fund could come with fewer expenses, and thus, lower fees.
2) However, the target index performs, with occasional variances, that’s how you’re likely to perform, too. Given that indices like the S&P 500 have historically risen in value over the longterm, that could make index funds a good option for those who want to invest and forget it for a long period of time.

On the other hand…
There's little chance of outperforming the market. That's an issue if you need more aggressive returns. In addition, index funds come with no specific protection against extreme volatility. Note that when you make your selections in a 401(k) or IRA, you can tell whether a fund is active or passive by reading its summary. It should also be noted that passive vs active doesn't have to be a binary choice. Many investors take advantage of both options in their portfolio! While most funds are either active or passive, there are many types of funds within those two categories.

Questions You Were Afraid to Ask #8: What Differentiates Mutual Funds, Exchange-Traded Funds, and Hedge Funds?

Let's start with mutual funds, one of the oldest and most common ways that people invest. Here's how the Securities and Exchange Commission (SEC) defines mutual funds: A mutual fund is a company that pools money from many investors and invests the money in securities such as stocks, bonds, and short-term debt. The combined holdings of the mutual fund are known as its portfolio. Investors buy shares in mutual funds. Each share represents an investor's part ownership in the fund and the income it generates. As we've already covered, mutual funds can be either actively managed or passively managed. Regardless of which umbrella the fund falls under, though, many investors flock to mutual funds because they offer several potential benefits:

1) Simplification. Mutual funds can simplify the process of investing because instead of devoting time to researching dozens – or even hundreds – of individual companies to invest in, the fund does it for you. (Note, of course, that you or your financial advisor should still research which fund is right for you.)
2) Diversification. Mutual funds often invest in a wide range of companies and industries to meet the funds stated objective. This could lower your overall risk. This means that if one company/industry does poorly, you may not experience the same kind of loss you would if you invested all your money in that company or industry.

There are potential issues with mutual funds, though. For example, sometimes, it can be difficult to understand what or how the fund actually invests (Mutual funds can differ drastically depending on their objectives, investing style, time horizon, and other factors.) Mutual funds are required by law to provide a prospectus to investors that explains how the fund works, but if you don't know what you're looking at, this information may confuse more than enlighten. This is why it's important to do your homework. This is also true for ETFs and hedge funds.

Mutual funds can also sometimes come with more expenses than other funds, too. They might include management fees, purchase fees, redemption fees and tax costs. These expenses can eat into your returns, thereby lowering your overall profit. Finally, mutual funds may not be a great choice if immediate liquidity is a high priority. All mutual fund trades run at the end of day. So, for example, if you wanted to sell a mutual fund at the beginning of the day, hoping to avoid what you think the market will do, you will still get the end of day price.

For this reason, some investors turn instead to…

1) Exchange-Traded Funds ETFs, as they are often called, can be actively managed. More often, however, they track the companies in a specific index, just like an index fund. Otherwise, ETFs differ from mutual funds in a few ways. For one thing, the shares each investor has in an ETF can be traded on the open market. That means you can buy or sell your shares in an ETF just like you would an individual stock. You can't do that with regular mutual- or index funds. That's a big advantage for investors who value flexibility and liquidity. Most ETFs also come with lower expenses than mutual funds. ETFs fully disclose all holdings held. This makes it easier to see exactly what you are investing in. It also makes it easier to see where you have overlap. But of course, nothing's perfect. Since ETFs can be traded like common stock, that might lead to trading too often. You may find yourself paying more than you anticipated in trading fees. Then, too, some ETFs are thinly traded, meaning there's just not a lot of activity between buyers and sellers. This could make it difficult to sell your shares.
2) Hedge Funds Most people will never invest in a hedge fund. They're generally not an option when investing through a 401(k) or IRA. But I include them in our discussion because I sometimes get asked about them – and for good reason! You often hear about hedge funds in the media, and they're the subject of multiple films. While mutual funds and ETFs can be either passive or actively managed, hedge funds are always active. The idea behind hedge funds is that the manager can use all sorts of strategies and tactics to help investors beat the market while "hedging" – hence the name – against risk. Hedge funds often invest in non-traditional assets beyond stocks and bonds, too. The

reason hedge funds are not an option for most investors is because of the huge cost associated with them. Legally, to invest directly in a hedge fund you must be an accredited investor. Meaning, you must have a net worth of at least $1 million or an annual income over $200,000 to invest in one. Plus, you must be willing to stomach paying all sorts of fees that are much higher than your average mutual fund. For these reasons, while hedge funds may be right for some people, they're simply not necessary for the average investor to save for retirement or reach their financial goals.

Questions You Were Afraid to Ask #9: How do I know which investment options are right for me?

There is no one-size-fits-all answer. No single "best" option. Only the one that is best for **you**, based on your wants, your needs, your nature. This might seem like a no-brainer, but it's critical all the same. That's because, as an investor, you will often hear the media say otherwise. You will hear people claim that the Dow is more important than the S&P (or vice versa). That stocks are better than bonds, or bonds are safer than stocks. That passive is better than active (or vice versa), or that ETFs are always better than mutual funds (or vice versa). As we've seen, the truth just isn't that simple.

Now, I have six questions for **YOU** to consider the answer to. Six questions you must not be afraid to ask. Questions only you can answer. Those questions are as follows: Who, What, When, Where, Why, and How.

1) Who am I? Are you cautious by nature or a risk-taker? Are you a family-oriented person, or more of a lone wolf? An adventurer or a caretaker? Someone with a few simple wants, or big, bold dreams? Or – as many people tend to be – are you a mixture of all these things?
2) What kind of lifestyle do I want? Simple or extravagant? Always trying new things, or staying in your comfort zone? One focused on work and personal accomplishment, or one focused on family and community? Or again – and I can't stress this too much – a mixture of these things, depending on what stage you're at in life?
3) When will I most need money? Do you need it soon because you're buying a new home or starting a new business? Or do you need it later when you're about to retire?
4) Where do I see myself in ten years? Or twenty? Life is all about change and growth. That means you need to ensure you're investing for long-term growth to reach your long-term goals.
5) Why do I need to invest? To help send your kids to college? To retire? To see the world? To give to charitable causes? To feel like you always have a safety net?
6) How will I pay for retirement? This is key. Because, regardless of your other goals, there's probably going to come a time when you want to stop working. But you can't just pick a day to not show up at work. Retirement creates a massive lifestyle change, one that will be quite upsetting to your finances if you don't prepare for it.

Questions You Were Afraid to Ask #10: What's the difference between all of these types of bonds

As we said earlier, when you buy a bond, you are lending money to the issuer – generally a company or government. In return, the issuer promises to pay you a specified rate of interest on a regular basis, and then repays the principal when the bond matures after a set period of time.

As you know, the markets had a very up-and-down year in 2022. Whenever this happens, many investors start showing renewed interest in bonds, because they tend to be less volatile than stocks. With the rising interest rates, this interest continued in 2023.

So, there are several types of bonds to choose from, each with different characteristics. All those options can be confusing, so I will give you a brief overview of the main types that investors have to choose from.

Let's start with:

1) Corporate Bonds

Corporate bonds are issued by both public and private corporations. Companies use the proceeds of these bonds to buy new equipment, invest in new research, and expand into new markets, among other reasons. These bonds are usually evaluated by credit rating agencies based on the risk of the company defaulting on its debt.

Corporate bonds can be broken down into two sub-categories:

Investment-grade, and High-Yield.

- Investment-grade bonds come with a higher credit rating, implying less risk for the lender. They're also considered more likely to make interest payments on time than non-investment grade bonds.

- High-yield bonds have a lower credit rating, implying higher risk for the investor. These are typically issued by companies that already have more debt to repay than the average business or are contending with financial issues. Newer companies may also issue high-yield bonds, because they simply don’t have the track record yet to garner a high credit rating. In return for this added risk, high-yield bonds typically pay higher interest rates than investment-grade bonds.

2) Muni-Bonds

Municipal bonds, or “muni bonds”, are issued by states, cities, counties, and other government entities so that entity can raise funds. Sometimes these funds are to pay for daily operations like maintaining roads, sewers, and other public services. Sometimes the funds are to finance a new project, like the building of a new school or highway. Muni-bonds can also be broken down into two sub-categories:

Revenue bonds, and general-obligation bonds.

- Revenue bonds are backed by the revenues from a specific project, such as highway tolls.
- General Obligation bonds are not secured by any asset, but are instead backed by the “full faith and credit” of the issuer, which has the power to tax residents in order to pay bondholders, should that ever be necessary.

In other respects, muni-bonds work similarly to corporate bonds in that the holder receives regular interest payments and the return of their original investment.

But muni bonds do come with one additional advantage, in that the interest on a muni-bond is exempt from federal income tax. It may also be exempt from state and/or local taxes if the holder resides in the community where the bond is issued. However, munibonds often pay lower interest rates than corporate bonds do.

3) U.S. Treasuries

Treasury bonds are the type of bonds you usually hear about in the news. As the name suggests, these are issued by the U.S. Department of Treasury on behalf of the federal government. They carry the full faith and credit of the government, which has historically made them a very stable and popular investment. In fact, U.S. treasuries tend to be so stable that economists often use them as a bellwether for the overall health of the entire economy.

There are several types of U.S. Treasury bonds.

- Treasury Bills are short-term bonds that mature in a few days to 52 weeks.
- Treasury Notes are longer-term securities that mature in terms of 2, 3, 5, 7, or 10 years.
- Actual U.S. Treasury Bonds typically mature every 20 or 30 years. Both Notes and Bonds pay interest every six months.
- Finally, we have Treasury-Inflation-Protected Securities, or TIPS. These are notes and bonds whose principal is adjusted based on changes in the Consumer Price Index, which tracks inflation. Interest payments are made every six months and are calculated based on the inflation-adjusted principal. That means if inflation goes up, so too does the principal in the bond...thereby increasing the amount of interest that is paid. However, if inflation goes down, the principal does too, thereby decreasing the interest rate.

Questions You Were Afraid to Ask #11: What do all of these bond terms mean?

One common frustration investors have is dealing with all the terms and jargon used in the financial industry. If you have ever heard two Wall Street types talking, it can be like listening to a bad episode of Star Trek!

Bonds in particular come with a lot of lingo which can be very intimidating for investors. So, let's break down a few common terms you're likely to hear in the media or when thinking about investing in bonds.

As I said earlier, when you buy a bond, you are lending money to an issuer. In return, the issuer promises to pay you a specified rate of interest on a regular basis, and then return the principal when the bond matures. Let's discuss some of the most common terms:

issuer, par value, coupon rate, and maturity.

- Issuer: This is the entity that "issued" the bond to borrow money. Generally, issuers include local and state governments, the U.S. Treasury, and corporations. Whoever it is, it's their responsibility to make interest payments and repay the amount you initially loaned.
- Par Value: This is the amount that must be returned to the investor when the bond matures – essentially, the investor's principal. Note that many bonds are issued at a par value of $1,000, so it it doesn't matter whether the bond matures in 10, 20, or 30 years. Whenever that time is up, the issuer would still pay back the initial par value. You may also occasionally see the term "face value" instead of par.
- Coupon Rate: This is the bond's interest rate, paid by the issuer at specific intervals. For instance, let's say you owned a $1,000 bond with a 5% coupon rate. The issuer would then pay you $50 in

interest each year until maturity. Some bonds pay interest semiannually, so in this case, you would be paid $25 every six months.

You may be wondering how coupon rates are determined. There are two main factors: the amount of time to maturity, and the credit rating of the issuer. Typically, bonds that take longer to mature come with higher rates. After all, investors want compensation for not getting their principal back until later. Conversely, bonds with shorter maturities usually pay lower interest rates.

Furthermore, if the issuer has a low credit rating, they will usually pay higher interest rates to compensate for the additional risk.

So, why is it called a “coupon” rate, you might ask? Well, once upon a time, investors were given actual, physical coupons to redeem to collect their interest payments.

- Maturity: This term is pretty simple. You’ve probably figured it out already. This is the amount of time until the bond is due to be repaid. A 10-year Treasury bond, for instance, matures 10 years from the date it was issued.
- Rating: As I just mentioned, some issuers have higher or lower credit ratings. An issuer rating signifies the bond’s credit quality. Here in the United States, there are three main rating services: Standard & Poor’s, Moody’s Investor Services, and Fitch Ratings Inc. Each agency rates bonds based on the issuer’s potential ability to pay both interest and principal in a timely fashion.
- Price: Hopefully, all these terms have been easy to understand, because here is where things get a little tricky. As you know, bonds can be traded on the open market. For example, let’s say Fred buys a bond, but before it matures, decides to sell it to Fran. The “price” is the amount for which the bond is traded.

Sometimes, bonds trade at their par value, but they don't have to be. For instance, imagine Fred bought his bond for $1000, but trades it to Fran for only $950. The bond's price, then, is $950, and is said to be traded at a discount. On the other hand, if Fred trades it for $1,050, then Fran would be buying it at a premium.

So why would a bond's price differ from its par value, you might wonder? Sometimes, this is due to rising or falling interest rates. For example, if interest rates around the country rise above what they were when the bond was issued, that bond would no longer be as valuable.

That's because the old bond's coupon rate would be lower than what an investor could get if they bought a new bond. So if Fred wanted to sell his bond before maturity, he would have to do so at a discount.

Questions You Were Afraid to Ask #12: What are Bond yields and why do they matter?

Financial terminology can be slippery and hard to remember. But keeping all these terms in mind, the definition of a bond's yield is this: The return – or amount – an investor expects to gain until the bond matures. Simple, right? No, not quite. While that may be the definition, the actual ramifications of yield go a bit deeper. To understand this, we first need to understand the most basic way yield is calculated.

A bond's current yield can be found by dividing the bond's annual interest rate payment, coupon rate, by its price.

For example, imagine Fran buys a bond with a 10% coupon rate for its original $1000 price. The bond's yield would be 10%, too. Now imagine that Frank buys that same bond from Fran a year later – but for $75 more. Since the bond is being traded for more than its par value – in this case, $1,075 – the yield would go down to 9.3%. After all, if Frank pays more than Fran for the same level of interest rate, he's getting a lower return on his investment than Fran did, who paid less. However, if the bond trades for less than par – say, $975 – then the yield goes up to 10.25%. In other words, yields and bond prices are inversely related. If the price of a bond goes up, its yield will go down. If the price goes down, the yield goes up.

Essentially, by comparing the current yield of different bonds, you can see which bonds are expected to give more or less of a return on your investment. The higher the yield, the better the expected return. Now, that doesn't mean an investor should just look for bonds with the highest yields and call it a day. That's because high-yield bonds tend to come with more risk than low-yield bonds do. As I said earlier, issuers with lower credit ratings will often pay higher interest rates, since there is some risk they won't be able to repay the principal by the time the bond matures. Investors must always balance risk versus reward when choosing where to put their money, and that holds true for bonds, too. So, that's yield in a nutshell.

Now, you may be wondering, "Why do I hear so much about bond yields in the media?" Well, many analysts and economists use yields to project which direction interest rates will move in the future…and by extension, the overall economy. You see, when interest rates are expected to rise, bond prices tend to go down. That's because an existing bond's coupon rate will no longer be as attractive as that of a new bond, meaning the owner would need to sell the bond at a discount.

And when interest rates are expected to fall, bond prices rise. For that reason, when yields rise across the entire bond market, analysts often see it as a signal that interest rates may rise soon, too. And when the yield on short-term bonds rises above that of long-term bonds, this can indicate that investors are concerned about a possible recession.
We covered a lot of concepts in a very short amount of time. Hopefully, it all made sense. But to be honest, we're just barely scratching the surface of this topic – but this is precisely why we started this series on "Questions You Were Afraid to Ask." The world of investing can be a complicated one. Sometimes, it's more complicated than it needs to be. You will often see terms like "yield" thrown about in the media without any explanation or context. Many investors, even experienced ones, can find all this lingo to be confusing, even intimidating. That's not how investing should be! You don't need a PhD to understand this stuff. You just need to break it down and translate it into plain English. Everyone, regardless of their level of education or experience, has the right to invest with confidence in their own future. Furthermore, smart investors don't actually need to think about terms like "yield-to-worst" that much. It's far more important to understand what you want to accomplish, and what steps you need to take to get there.

Questions You Were Afraid to Ask #13: What are the pros and cons of investment apps?

Mobile investing apps enable people to buy and sell certain types of securities right from their phone. They have provided investors with a quick and easy way to access the markets. For new investors who are just getting started, these apps have made the act of investing more accessible than ever before. That's a good thing! Even today, many people only invest through an employer-sponsored retirement account, like a 401(k). That's because they may lack the resources, confidence, or ability to invest in any other way. But not everyone has access to a 401(k). And while 401(k)s are a great way to save for retirement, many people have other financial goals they want to invest for, too. Mobile apps provide a handy, ready-made way to do just that.
Continuing with the accessibility theme, many apps enable you to invest right from your phone, anytime, anywhere. In addition, many apps don't require a minimum deposit, so you can start investing with just a few dollars. Finally, the most popular apps often charge extremely low fees – or even no fees at all – to buy or sell stocks and ETFs.

Many apps also come with features beyond just trading. Some apps will help you invest any spare change or extra money, rather than let it simply lie around in a bank account. Others enable you to invest automatically – daily, weekly, bi-weekly, monthly, etc. That's neat, because investing regularly is a key part of building a nest egg.

It's no surprise, then, that these apps have skyrocketed in popularity. In fact, app usage increased from 28.9 million in 2016 to more than 137 million in 2021.1 Part of this surge was undoubtedly due to the pandemic. With social distancing, many used the time to try new activities and learn new skills from the safety of their own home…investing included.

But before you whip out your phone and start trading, there are some important things to know, first.

Investment apps come with definite advantages…but also some unquestionable downsides. When you think about it, an app is essentially a tool. Like any tool, there are things it does well…and things it can't do at all. And, like any tool, it can even be dangerous if misused. The first issue: the very accessibility that makes these apps so popular is also what makes them so risky.

When you have a tool that provides easy, no-cost trading, it can be extremely tempting to overuse it.

Researchers have found that this temptation can lead to overly risky and emotional decision-making, as investors try to chase the latest hot stock or constantly guess what tomorrow will bring.2 The result: Pennies saved on fees; fortunes potentially lost on speculation.

The second and biggest issue is that while these apps make it easy to invest, they provide no help with actually reaching your financial goals. No app, no matter how sophisticated, can answer your questions. Especially when you don't even know the questions to ask. No app can hold your hand and help you judge between emotion-driving headlines and events that necessitate changes to a portfolio. No app can help you determine which investments are right for your situation. Just as you can't hammer nails with a saw, or tighten a bolt with a screwdriver, no app can help you plan for where you want to go and what you need to get there.

Take a moment to think about the goals you have in your life. They could be anything. For instance, here are a few my clients have expressed to me over the years: Start a new business. Visit the country of their ancestors. Support local charities and causes. Design and build their own house. Play as much golf as possible. Volunteer. Visit every MLB stadium. Send their kids to college. Read more books on the beach. Tour national parks in a motorhome. Spend time with family.

Achieving these goals often requires investing. But there is more to investing than just buying and selling stocks. More to investing than simply trading. Investing, when you get down to it, is the process of determining what you want, what kind of return you need to get it, and where to place your money for the long term to maximize your chance of earning that return. It's a process. A process that should start now, and last for the rest of your life. A process that an app alone cannot handle – just as you can't build a house with only a saw.

Questions You Were Afraid to Ask #14: What does it mean to invest in cash?

Here are some examples just from the last year or so:

"Cash is king again."

"Warren Buffett sits tight on cash."

"No more 'cash is trash' billionaire hedge fund manager says."

"How much of an investment portfolio should be in cash?"

Headlines like these often confuse new investors. But even experienced investors sometimes wonder: "What does it mean to invest in cash?" After all, we don't usually think of the word "cash" in relation to investing. For most people, cash is the stuff you keep in your wallet. So, what does this mean exactly?

This question is a textbook example of an intelligent question that people are often afraid to ask. Fortunately, "investing in cash" is a fairly simple concept. It means to invest in a type of **short-term security** for a set period of time in exchange for one or more interest-rate payments.

Certificates of deposit (CDs), **money market accounts**, and **treasury bills** are three examples. These securities are known as "cash equivalent" investments, but just the word "cash" is often used as an umbrella term to cover all the various types. And this is because these types of investments are very **liquid**, which means the funds inside them can be converted to actual cash quickly and easily compared to stocks, bonds, or investment accounts like a 401(k) or IRA. Stocks and bonds aren't always easy to sell, and depending on the timing, you may sell for a lower amount than what you paid for. And withdrawing the money from an IRA or 401(k) before you retire can trigger financial penalties from the government.

That's why these types of securities, like the **Certificates of deposit** (CDs), **money market accounts**, and **treasury bills** are referred to as "investing in cash." They still provide a return – hence the *investing* part – but also a level of liquidity that is close to actual, physical currency.

Cash investments can be VERY handy for 3 reasons.

1. **It can keep your money safe in a volatile market.** Money markets and certificates of deposit are historically stable investments and are often insured up to a certain point by the federal government.
2. **You can still earn a small return on it,** in the form of interest rate payments, which are generally higher than with a basic savings account.
3. **It provides easy access within a relatively short period of time.** Most money markets have a maturity of six months or less.

Treasury bills mature within one year or less. CDs, meanwhile, usually have a maturity of 6 months to a few years.

But, there are certainly some downsides to investing in cash.

1. If your focus is on *growing* your money, there are usually much better options. That's why many investors often shun putting too much money into cash because they feel there are more productive ways to invest.
2. While they are very liquid compared to other securities, there are still penalties if you withdraw the money from a CD before maturity. Money markets don't have an early withdrawal penalty, but many banks and credit unions will charge monthly fees if the balance falls below a certain minimum.

So with all this in mind, why have we seen so many headlines about "cash" in recent years? Well, it all has to do with interest rates. As you probably know, the Federal Reserve has been gradually hiking rates for much of the past two years to bring down inflation. When the Fed raises rates, banks and credit unions usually follow suit. As a result, some cash investments have been paying higher interest rates than normal. This, coupled with a volatile stock market, has caused cash to gain in popularity with some investors.

It's impossible to know how long this trend will continue. And it's worth emphasizing that cash, like all securities, is an investment that is *sometimes* right for *some* people in *some* situations…but not *always* right for *all* people *all* the time.

Questions You Were Afraid to Ask #15: What does it mean to invest in commodities?

In an investing context, a commodity is a physical product that is either consumed or used to produce something else. For example, corn, sugar, and cotton are all commodities. We generally refer to products like these as agricultural commodities. Pork, poultry, and cattle are livestock commodities. Energy products, like oil and gas, are commodities, too. So are precious metals like gold, silver, and platinum. A commodity is generally seen as an alternative investment. Alternative investments are called that because they trade less conventionally than more traditional stocks and bonds. Despite this, many people find the idea of investing in commodities to be an attractive one. For some, it's because it makes more intuitive sense than owning shares in a company (buying stock) or lending money to an organization (buying bonds). There's something tangible about the idea of investing in things we see and use on a daily basis. By comparison, stocks and bonds can feel a little more abstract. For others, investing in commodities is a way of adding even more diversification to a portfolio. That said, the question of how to invest in commodities can be an overwhelming one. Most people – including experienced investors – don't even know how to get started! So, let's discuss some of the potential ways to invest in commodities. The oldest and most basic way to invest in commodities is to physically own them. This is what traders have been doing for most of human history. Person A buys a herd of cattle from Person B, and then sells some or all of them to Person C, hopefully for a profit. Person X buys a stack of gold bars from Person Y and then sells them to Person Z. You get the idea. This, of course, is still done today. But for most retail investors – regular folks like you and me – taking physical ownership just isn't feasible. When you buy commodities, you must also have a way to store them. Unlike stocks and bonds, commodities take up space… usually a lot of it! You must also have a way to deliver the commodities to and fro. You'd also want to purchase insurance on the product in case something went wrong. And of course, you would need to have a lot of technical expertise to know how to trade those commodities for a fair price. For these reasons, most investors choose one of two avenues: Buying stock in companies that produce commodities or by investing in commodity-based funds. Let's start with the first. Let's say you wanted to invest in a certain type of precious metal that you feel will rise in value in the future. Obviously, for reasons we've already covered, you don't want to own the metal itself. So, instead, you buy stock in a company that specializes in mining or extracting that particular metal. Should the price of that metal go up, it's quite possible that the stock price for the company that specializes in that metal will go up, too.

Another way to invest in commodities is through commodity-based funds. You may remember my previous letter on the different types of investment funds. Commodity-based funds are very similar, except they are centered around specific commodities. The fund may be comprised of a number of companies that specialize in the commodity. Some funds may even purchase and store the physical product itself if they have the means to do so. Either way, these types of funds – which can be mutual funds or exchange-traded funds – can give you exposure to whatever commodities you'd like to invest in.

There is another way that some investors participate in commodities called future contracts. These are "contracts in which the purchaser agrees to buy or sell a specific quantity of a physical commodity at a specified price on a particular date in the future."1 So, let's say an investor purchases a contract to buy X barrels of oil for $75 per barrel at some later date. By doing so, they anticipate the price of oil will rise above that, so their price affectively becomes a bargain.

Then, when the specified date arrives, the investor accepts a cash settlement. This means the investor is credited with the difference between the initial price they paid and the current market price. This is instead of actually receiving physical ownership of the oil.

Of course, if the price of oil goes below $75 per barrel, the investor would have to pay back that difference themselves.

Commodity futures are a complex topic, and to be honest, individual investors rarely turn to them. They are more often used by institutional investors like commodity-based funds.

Questions You Were Afraid to Ask #16: What are the pros and cons of investing in commodities?

For a quick recap, a commodity is a physical product that is either consumed or used to produce something else. For example, corn, sugar, and cotton are all agricultural commodities. Pork, poultry, and cattle are livestock commodities. Oil, gas, and precious metals like gold and silver are commodities, too. A commodity is generally seen as an alternative investment. Traditionally, large institutions and professional traders are the most likely to invest in commodities, but regular people can, too. Like every type of investment, though, there are both potential benefits and risks that come with commodities. Some of these are very specific to commodities.

First, let’s look at some of the pros of investing in commodities:
Diversification. As you know, all types of investments will rise and fall in value at different times. That’s why it’s important that your portfolio consists of diverse asset classes, each driven by different factors. (Financial advisors like me refer to this as having low correlation, meaning price changes in one asset don’t affect the price of another asset.) Typically, commodities have a low correlation to stocks and bonds. Every type of commodity is affected by different economic factors. Most of those don’t usually affect, say, stocks. For example, while changing interest rates can have a major impact on stocks, they don’t have a direct effect on cotton prices. And though a hurricane in the Gulf of Mexico can dramatically impact oil prices, it usually doesn’t mean much to the overall stock market. For these reasons, investing in commodities can add valuable diversification to your portfolio.

Diversification is important because it can help cushion your portfolio from major volatility. If one asset class takes a hit, the others could help compensate. However, it is important to note that diversification doesn’t eliminate risk.
Hedge Against Inflation. During periods of high inflation, the price of most consumer goods and services will go up. While that can make for an unpleasant-looking receipt at the grocery store, it can be a boon to commodity investors. That’s because the price of many commodities tends to go up with inflation. As a result, investing in commodities can help “hedge” – or lessen – the risk of investing in other asset classes that may be negatively affected by inflation.
Potential for Significant Returns. Commodities can also – potentially – produce meaningful returns. Certain types of commodities will occasionally rise drastically in demand, taking their price up with them. As a result, investing in the right commodity at the right time can

certainly help investors generate a significant profit! Of course, that same potential is also behind some of the downsides to investing in commodities:

Volatility. Commodities can be extremely volatile. As you've no doubt seen, the price of any commodity (say, oil, or gold) can fall remarkably fast if the demand for those products falls far below their supply. For these reasons, you should only invest in commodities if you can afford to take on the…

Multiple Risks. As I mentioned, all types of investments come with risks. However, the risks associated with commodities are particularly large and varied. For example, some commodities – especially agricultural ones – are vulnerable to weather. Others can be affected by natural disasters, military conflicts, or changing government regulations. While these same factors can certainly drive prices up, they are also just as likely to drag prices down if the wrong conditions arise. Furthermore, investors have no control over these types of risks…and they are notoriously difficult to predict in advance.

No Income. Finally, commodities do not produce any income for investors the way bonds or dividend-paying stocks do. So, investors seeking income – especially retirees – may find that the pros of commodities are just not worth the risks when it comes to fulfilling their needs. In the end, Alice and Smithwick, there's simply no "one size fits all" type of investment, and that's especially true of commodities. While they can be a viable fit for some portfolios, every investor must look carefully at whether commodities are right for their needs, and whether the risks associated with them are more than they can afford.

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