Handout B-Tracey

Tracey's personal profile

Tracey is a 58-year old pediatrician. She has hired you to be her financial manager. She currently makes $140,000 a year. She has money taken out of her paycheck to contribute to her savings account and personal investment account. Tracey has already accumulated $500,000 over the first 30 years of her career in her personal investment account. Her goal is to have around $900,000 in her personal investment account when she retires at age 65 because it'll be her primary source of income after retirement. As she's nearing retirement, she's looking for more stable investment options with lower risk.

The Assignment: Use the information about Tracey, along with the descriptions of various investment options (Handout A), and scenarios on Handout C to:

1) Choose a financial plan for Tracey
2) Calculate how much money Tracey has after 3 years in her personal investment account. Assume she puts $10,000 a year into the account and receives compounded* interest and returns annually. Also assume the $500,000 already in her account is re-allocated to the same percentages of the investment strategy option you choose for her. Use the steps on the following pages to help with the calculation.
3) Prepare a 2 minute presentation on why you chose this strategy as if you were giving financial advice to Tracey and convincing her that this is the right approach.
    a. Create a visual such as a pie chart showing the investment types in the portfolio or a line graph showing investment growth as part of the presentation.
    b. Include why this strategy makes sense thinking about terms discussed earlier such as risk, diversification, reward, and liquidity.

*As a reminder, compound interest or return is money that is paid on the amount of the original investment and any interest or income that has been earned. If, for example, you put $100 into an account that pays 5% compound interest every year, your balance after 3 years will be:

Year One:	100 x .05 = 5.00
	100 + 5.00 = **105.00**
Year Two:	105 x .05 = 5.25
	105 + 5.25 = **110.25**
Year Three:	110.25 x .05 = 5.51
	110.25 + 5.51 = **115.76**

The tables on the following pages will help with this calculation.

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Step 1: Calcuate the amount of the annual contribution that will be allocated to each investment type to use in Step 2 below for (B). Also calculate the year 1 starting balance in each investment type to use in Step 2 below for (A).

Bonds & Mutual Funds (containing primarily bonds):

Stocks & Mutual Funds (containing primarily stocks):

Certificates of Deposit:

Savings Account:

Step 2: Calculate the interest earned and investment growth by investment type for the three years.

Bonds & Mutual Funds (containing primarily bonds):

	Beginning Balance (A)	Annual Contribution (B)	Investment Growth (C) = (A+B)*Growth Rate	Ending Balance (A+B+C)
Year 1				
Year 2*				
Year 3*				

*Note: Year 2 beginning balance equals year 1 ending balance and Year 3 beginning balance equals year 2 ending balance.

Stocks & Mutual Funds (containing primarily stocks)

	Beginning Balance (A)	Annual Contribution (B)	Investment Growth (C) = (A+B)*Growth Rate	Ending Balance (A+B+C)
Year 1				
Year 2				
Year 3				

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Certificates of Deposit

	Beginning Balance (A)	Annual Contribution (B)	Investment Growth (C) = (A+B)*Growth Rate	Ending Balance (A+B+C)
Year 1				
Year 2				
Year 3				

Savings Account

	Beginning Balance (A)	Annual Contribution (B)	Investment Growth (C) = (A+B)*Growth Rate	Ending Balance (A+B+C)
Year 1				
Year 2				
Year 3				

Step 3: Sum the balances of all investment types to determine portfolio value after three years.

Step 4: Calculate the total approximate percentage growth of the investment portfolio over the three years using the following formula:

[Investment interest and gains/ principal*]

*Note principal is equal to beginning investment+annual contributions.

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