



The SoFi Guide to Investing Intelligently

What you need to know to make your money work for you.

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Do you dream about buying a house, starting your own business, taking an around-the-world trip, or retiring someday? One of the best ways to make progress towards those goals is to make your money work for you—or, in other words, investing.

Yes, investing your hard-earned money can seem daunting. After all, there's an overwhelming amount of information, choice of accounts, and strategies out there. Plus, the markets fluctuate, and the idea of potentially losing money can create stress and fear.

By learning more about the process, understanding the markets, and knowing what you are investing in—you'll gain more confidence that you are on the right path.

In this guide, we'll cover what you need to know to get started, and how investing can help you achieve your goals.



Why Invest?

The average interest rate on a savings account at the top five U.S. banks this year was 0.08%¹, while the average return on the S&P 500 from 1950 through 2009 was 7%.² So, what does this mean for your money? If you had \$10,000 today and put it in a savings account with an

interest rate of 1% (some banks have rates this high), you would have \$11,046 in 10 years. If instead you took that money and invested it, earning an average annual return of 7% and compounding annually, you would have \$19,672 in that same time period!³

- 1 **Section 1:** Setting Your Financial Goals
- 2 **Section 2:** Understanding the Basic Concepts of Investing
- 3 **Section 3:** Starting Your Investment Strategy
- 4 **Section 4:** Reviewing Various Types of Investments

Time in the market is more important than market timing. Read on to find out why this matters and how you should be investing intelligently.

¹FFIEC Central Data Repository's Public Data Distribution <https://cdr.ffiec.gov/public/>

²S&P 500 Historical data <http://us.spindices.com/indices/equity/sp-500>

³Simple Stock Investing <http://www.simplestockinvesting.com/SP500-historical-real-total-returns.htm>



Section 1: Setting Your Financial Goals


Before you invest, it's important to understand your goals. Selecting an investment strategy depends on your goal amount (how much you want to save) and the time horizon (when you'd like to use that money).

First, almost everyone should have these two goals: Create an emergency fund and save for retirement. We call these “bookend goals”—your primary short-term and primary long-term goal.



Before You Even Think About Investing...

- ☐ Make a list of all of your accounts (bank, investments, retirement, credit cards, other debt) and their interest rates.
- ☐ Know your cash flow. How much do you make after taxes? How much do you spend?



Your First Goal: Emergency Fund

Your emergency fund is a lump sum that you can easily access should an emergency arise—for example, if you get laid off or face an unexpected health cost. This fund should be 3-12 times the amount you spend monthly, depending on how risk-averse you are.

For example, if you've been laid off before and know you can easily find a new job, you may be comfortable with having three months saved. On the other hand, if you're in a specialized line of work and may have trouble securing employment right away, you may prefer to have a larger sum set aside.

You want to keep your emergency fund money “liquid,” or available to access as soon as you need it. With that said, many savings accounts only pay you 0.01% interest on cash balances.⁴ This doesn't keep pace with inflation, so you're essentially losing money. Instead, you might consider opting for a high-yield savings account that earns 1% interest or more.

How much do you spend monthly?

3x monthly outflow =

12x monthly outflow =

Target emergency fund =

What Should Caleb Do?

Caleb is single and renting an apartment. He is paying off student debt, but has a little extra money each month that he doesn't know what to do with. His expenses average \$5,000 per month and he currently has \$2,500 in his savings account.

What should Caleb do? While prepaying student debt, or better yet refinancing it, can make sense because the interest rate is likely higher than a savings account rate, Caleb should have more cash on hand in case of an emergency or job loss. Caleb should open a high-yield savings account earning 1% interest or more, and link it to his checking account. His target savings should be \$15,000, or 3x his monthly expenses. After he reaches that, he could start prepaying his high-interest student debt or investing for another goal.

⁴Source: FFIEC Central Data Repository's Public Data Distribution <https://cdr.ffiec.gov/public/>



Your Ultimate Goal: Retirement

Retirement is your largest financial goal. Even if it feels very far away, it's important to start saving early.

Let's say you and your partner will need \$6,000 per month in retirement income (in today's dollars). If you start saving at 40, you would need to save \$46,000 per year to be on track for retirement at 67. However, if you start saving at 30, you need to save \$32,000 per year. (Note: This assumes you'll both receive Social Security.) This illustrates the importance of starting early and giving your money time to work for you.

Need to catch up? It's never too late! You may need to save more or be more aggressive, but the most important step is to start saving (and investing) as soon as possible.

To save for retirement, you'll want to invest in a 401(k) plan, an IRA, or both. We'll get to this in a bit.

When do you want to retire?

For those born after 1960, full Social Security retirement age is 67.⁵

How much money do you need to live on each year?

In today's dollars.

How long do you expect to live?

Statistically, those born in the 1980s have a life expectancy of 71 for men⁶ and 78 for women,⁷ but to be safe (and optimistic), plan on 90 for men and 95 for women.

What do you currently have saved for this goal?

How Much Should Marc Save for Retirement?

Marc is 28 years old and making \$90,000 per year. He is saving 6% of his income (\$5,400 per year) into his current 401(k) and has employee matching up to that amount. Marc also has an old 401(k) with \$20,000 from his previous job and a Roth IRA with \$10,000 saved. He wants to retire at 65 and hopes to live to 95. Assuming he needs \$60,000 per year in retirement income, he will need to have \$3 million total saved up at retirement.

With average market returns of 7%, Marc needs to be saving \$23,200 per year to be on track—and that's assuming he'll get Social Security. If he doesn't, he'll need to save \$29,000 per year. Marc should increase his contribution to at least 9% and up to 19%. Marc should also consolidate his 401(k) into the new plan or roll it over into an IRA. Given his age, he might consider investing in an aggressive portfolio or 90% stock / 10% bond.

⁵ Social Security Administration <https://www.ssa.gov/planners/retire/retirechart.html>

⁶ <http://data.worldbank.org/indicator/SP.DYN.LE00.MA.IN?end=1989&locations=US&start=1980>

⁷ <http://data.worldbank.org/indicator/SP.DYN.LE00.FE.IN?end=1989&locations=US&start=1980>

Your In-Between Goals: Houses, Families, Businesses, and More

We've covered the two most important financial goals: Your emergency fund and retirement. Now, let's discuss everything in-between.

For example, do you want to:

- Buy a home
- Start a family
- Save for your education or your child's
- Travel
- Start a business
- Many of the above

Any goal you can think of is on the table, but it's best to be specific—exactly how much money you need to achieve each goal, and by when. Why? You have a much higher likelihood of reaching that target—plus, when the time comes to use that money, you'll have already given yourself permission and can enjoy it.

What is your goal?

When do you need the money?

How much do you need?

How much can you save each month?

Your investment strategy for your goals depends a lot on what they are and how soon you'd like to reach them.

Planning for a Dream Vacation

In two years, Shannon wants to take a trip to New Zealand with her girlfriends. The trip is going to cost \$10,000. She makes \$80,000 per year, and after refinancing her student loan, she plans to save \$390 per month for this goal. While Shannon really wants to go on the trip, she's also willing to take some risk with her money.

How should she invest it? Well, if Shannon can save \$390 per month over the next two years, she will have the \$10,000 she needs for her big trip—if she can earn a return of about 5%. To do this, she might consider a moderate or moderately conservative investment strategy.



Top 3 Financial Goals

Your most important goals besides your emergency fund and retirement.

Name: _____

Goal Amount: _____

Time Horizon: _____

Name: _____

Goal Amount: _____


Time Horizon: _____

Name: _____

Goal Amount: _____

Time Horizon: _____

These top three financial goals are your reasons for investing. Now, it's time to get started.



Section 2: Understanding the Basic Concepts of Investing

By understanding the three basic concepts of investing, you can determine what kind of investments may be right for you:

- 1 **Risk/Return Relationship**
- 2 **Diversification and Modern Portfolio Theory**
- 3 **Types of Risks**

1. Risk/Return Relationship

The higher the risk of your investment, the greater return you should expect on your money. It is, however, the nature of risk that the return you expect might not be the return you actually get.

When choosing a risk level look at both the “time horizon” of your investment goal and how much risk you are willing to take. We’ll talk about this more in a bit.



Source: Markowitz, Harry. “Portfolio selection*.” The Journal of Finance 7.1 (1952): 77-91.

2. Diversification and Modern Portfolio Theory

This theory emphasizes that risk is an inherent part of higher reward. If you hope for a higher return, expect a higher variability of actual returns. The returns on an S&P 500 ETF may be up one year and down the next. Returns on a mutual fund of Brazil stocks will likely have much wider changes in returns from year-to-year,

or even month-to-month. By diversifying your portfolio across asset classes and different markets, over time you can reduce (but not eliminate) the risk to your overall portfolio from market downturns and still take advantage of market upturns.

3. Types of Risks

There are several types of risks that every investor should be aware of: market, business specific, price volatility, interest rate, and concentration—to name a few. Some risks you can’t avoid, like market risk. The market goes up and down and this affects all stocks. However, you can reduce other risks by having a well-diversified portfolio. For example, if you buy individual

stocks, you open yourself up to business specific risk. Think Worldcom or Enron. But, if you buy an S&P index fund you are buying stock in 500 (actually 502) companies. If one of these companies falters it will impact the S&P index, but it won’t have the same harsh impact on your investment. This is the beauty of diversification.



Section 3: Starting your Investment Strategy

Each of your goals has a specific time horizon, which leads to an underlying investment strategy. Generally speaking, the longer the time horizon, the more risk you can afford to take, because you can weather market losses.

Asset Allocation

Asset allocation is an investment strategy that attempts to balance risk versus reward by adjusting the percentage of each type of **asset** in an investment portfolio according to your risk tolerance, goals, and investment time frame. You'll learn more about types of assets in the next section, but first, here's how you'll think through asset allocation in general.

Short Term (Less Than 3 Years)

For goals like: setting up an emergency fund, travel, buying a new car.

The rule of thumb is to keep any money you need within the next three years in cash (ideally in one of those high-yield savings accounts we mentioned earlier). If you have a higher risk tolerance you might consider investing some of this money in a conservative portfolio that will give you some upside, but protect you from a lot of down side.

Medium Term (5-10 Years)

For goals like: home purchase, starting a family.

With a time horizon of 5-10 years, you can afford to take some risk with your money and give it a greater chance to grow.

Medium-Long Term (10-20 Years)

For goals like: child's college savings, second home.

With a time horizon of 10-20 years, you can afford to take more risk with your money and take advantage of the power of compounding.

Long Term (20+ Years)

For goals like: retirement, financial independence.

For long-term goals, time is on your side to weather the ups and downs of the market and economic cycles. You can focus on growth while you are young and then shift to more conservative investments over time.

The Rule of 72

To find the number of years required to double your money at a given interest rate, divide the interest rate into 72. For example, if you want to know how long it will take to double your money at 7%, divide 7 into 72: **10.3 years.**



Types of Investment Accounts

There are two main types of investment accounts: taxable and tax-advantaged.

Taxable accounts are funded with after-tax money such as individual or joint accounts with a spouse. You can take your money out at any time for any reason. Any income generated in the account will be taxable each year, but you are only taxed on the gains on the investments when you sell them. If you hold the investment for more than a year before you sell it, you will pay long-term capital gains rates, which are normally lower than your ordinary income tax rates.

Non-taxable accounts are retirement accounts (401(k), 403(b), 457, IRA, Roth IRA, SEP IRA, Simple IRA, etc.) With the exception of the Roth IRA, these accounts are funded with pre-tax money. This gives a tax benefit today and allows you to pay taxes later (when you're retired and will presumably be in a lower tax bracket). You can access this money after turning 59 ½. If you need the money sooner, you can take a loan from a 401(k) and most 403(b)s, but you'll pay a penalty and income taxes on early withdrawals from the other types of accounts or if you don't repay the loans from your 401(k).

Roth IRAs are special, since they are funded with after tax money. You can take out the contributions at any time for any reason without penalty or tax. The gains will be taxed and subject to early withdrawal penalties if you take a distribution before age 59½ or before the five year anniversary. For example, if you open a Roth IRA, make a contribution in 2017, and turn 59½ in 2020, you could take distributions starting in 2022 with no taxes.⁸ If you have not yet reached age 59½, you would have to pay tax and an early withdrawal penalty on any gains on the account.

⁸ IRS <https://www.irs.gov/retirement-plans/roth-iras>



Section 4: Reviewing Various Types of Investments

Investments make you money in one of three ways:

- **Income:** Cash paid to you periodically from your investments (interest and dividends).
- **Capital Appreciation:** Owning things that go up in value (stocks, gold, real estate).
- **Profits:** Private business and real estate investments may pass through the profits from their operations.

Most individual investors have access to a broad choice of investments—CDs, stocks, bonds, mutual funds, ETFs, limited partnerships, and more. We'll talk about each of these to take away the mystery.

An Overview of Investment Types

| PLACE | GOOD FOR | RISKS/DOWNSIDE | BENEFIT |
|--|--|--|--|
| Checking Account | Paying your bills | Inflation, fees, little or no interest | FDIC Insured, no risk of loss, easy to pay bills |
| Savings Account | Your emergency fund (at least most of it) | Inflation, fees, low interest | FDIC Insured, no risk of loss |
| Bank Certificates of Deposit (CDs) | Your emergency fund (maybe some of it) | Inflation, low interest, penalty for withdrawal | FDIC Insured, no risk of loss |
| Money Market Funds | Holding uninvested money in an investment account, Emergency Fund | Inflation, low interest, not FDIC Insured | Very low risk of loss |
| Investments—Stocks, Bonds, Mutual Funds, Gold, Real Estate, Etc. | Investments within retirement accounts and money you won't need in 2 years or less | Not guaranteed. Value fluctuates. Can lose money. | Generally, better return than risk-free assets. Both income and potential appreciation. |
| IRA, 401(k), and Other Traditional Retirement Plans | Saving and investing for retirement. Reducing taxes | Your money is tied up until age 59½. 10% penalty for withdrawal except for a few specific uses. | Investments grow without being taxed. Tax benefits: Contributions are tax deductible. Income is taxed in retirement. |
| Roth Retirement Plans | Saving and investing for retirement | Money your contributions earn is tied up until age 59½. 10% penalty for withdrawal except for a few specific uses. | Investments grow without being taxed. Tax benefits: Contributions are NOT deductible, but income in retirement is not taxed. |



A Closer Look at Investments

There are two basic ways to invest:

- **Debt:** You can lend someone money and they'll pay you interest
- **Equity:** You can buy something for a dividend or something you hope will go up in value and can sell it, down the road at a profit.

Debt

Debt is most commonly bonds. The specific terms of the deal change, but you give someone money, they promise to pay it back in the future, and they pay you interest until they do.

Bonds

Bonds are loans you make to either a company or a government for a fixed period of time.

For example, you might lend a well-known utility company money for 20 years at 4% interest. If that bond were issued today, it would be a corporate 4% bond due in 2037. For each \$1,000 you invested, you would get \$40 per year every year until 2037; along with your original investment.

Four broad categories of bonds are available to most investors.

Treasuries: The U.S. government issues Treasury bills, notes, and bonds, all backed by the full faith and credit of the U.S. government. All three are sold in \$1,000 denominations. The difference is the length of the loan.

Corporate: These are bonds issued by corporations, which work the same way as Treasury bonds. The big difference is risk. The U.S. government probably won't go broke, but a company might.

Municipal: These are bonds issued by state and local governments. They can also include local agencies such as airports, school districts, and sewer or water authorities.

Mortgage and Asset Backed Bonds: These are bonds that pass through the interest on a bundle of mortgages, or other financial assets, such as car loans or the accounts receivable of companies.

Assessing Bond Risk

Corporate and municipal bonds are rated for risk by agencies such as S&P and Moody's. The precise scale varies with the rating agency, but bonds rated AAA to BBB by S&P are considered "Investment Grade," while those rated BB+ to C are high yield, or 'junk' bonds. Bonds with a D rating are in default and not paying interest. As a rule, investors demand higher interest on lower quality bonds. High yield bonds yield more because the risk of default is higher.

Equity

Equity is most often stocks, but it can represent any ownership interest in an asset.

Stocks

A stock is a single share of ownership in a public company. When you buy stock, you become a part owner of the company. You can potentially make money two ways:

1. The stock might pay dividends, if the company pays out part of its profits.
2. Over time, the stock might go up in value and you'll have a capital gain when you sell it.

Stocks can be categorized in several different ways:

Size: The size of a company is measured by its market capitalization, or the number of shares outstanding multiplied by the price per share. Large cap companies tend to be less risky than small or medium-sized companies. The S&P 500 index is made up of 500 of the largest capitalization stocks on the market.

Sector & Industry: Is it a retail company, a tech company, or a public utility? These are all examples of industries. Sectors are broader categories than industries—for example, oil is an industry, but energy is a sector that includes coal, wind, and solar companies. The stocks in each sector share certain characteristics and risks.

Income or Growth: Growth companies are expected to grow and invest their profits in projects to grow faster. Income companies are more mature and pay out their profits as dividends because they have fewer internal investment opportunities. Stocks with higher dividends are attractive to people who need income, while growth companies are better for people investing to get capital gains.

Real Estate Investment Trusts (REITs)

Some companies invest primarily in real estate or real estate loans. These are commonly traded like stocks, but their dividends are taxed differently.

Direct Investments in Real Estate or a Business

More seasoned investors may buy real estate or a private business directly as an investment. This is generally a commitment of time as well as money, since to reap the tax benefits you'd be a "material participant" in the business. This could be buying the property, collecting the rents, or even hiring the manager.

Limited Partnerships

The risks of owning one building can be mitigated by entering into a limited partnership with other investors and buying a number of buildings. This limits your legal exposure and offers the ability to diversify with a limited investment.

Master Limited Partnerships (MLPs)

This is a type of limited partnership that is publicly traded. Investors are limited partners, so they incur no liability, but profits of the partnership are passed through to investors. This is big in the oil and gas industries.

Gold

You can invest in gold, silver, platinum, and other precious metals. This can be done directly—buying the metal as coins or bars, or using ETFs that invest in bullion.

Cash

People also keep money in bank accounts, certificates of deposit, and money market funds. In each of these cases, the institution you give your money to is lending it out for you. You make money on these in the form of interest payments. Currently, interest rates are so low that you earn very little interest on these deposits.

A Note on Taxes

Each type of asset might be taxed slightly differently, which is important to understand before investing. For example, dividends on stocks are taxed at favorable rates, lower than your ordinary income rate. If you sell a stock at a profit after holding it for longer than one year, your profits are taxed at long-term capital gains rates. Interest on municipal bonds is exempt from federal income tax and from state tax in the state of the issuer. A SoFi Wealth advisor can help you understand the tax implications of your investments.



Mutual Funds

Think of mutual funds as suitcases filled with different types of securities, such as stocks and bonds.

Buying a share of the fund can invest you in hundreds of individual securities the fund holds—instant diversification. If one stock in the S&P 500 goes bankrupt, your S&P 500 fund might lose value, but you won't lose everything. If your whole investment was in that one stock, you'd lose all or most of your money.

Funds can invest in stocks, bonds, real estate, commodities, etc. There are over 20,000 mutual funds that cover every investing strategy you can imagine, but they break into some broad categories.

Target Date or Asset Class Specific

A target date fund will provide you with a mix of asset classes (e.g. 20% bonds, 70% stocks, 10% REITs). As the target year approaches, the fund will become more conservative. Target date funds are common for college and retirement savings. Other funds specialize in an asset class, such as large cap growth stocks or high yield bonds.

Active vs. Passive

Passively managed funds typically attempt to track an index, such as the S&P 500 or the Russell 2000. They only change the portfolio when there is a change to the underlying index. Their risk and return will closely track the index. Actively managed mutual funds attempt to “beat” an index. The idea is that with careful investment selection, they will get higher returns than the index. Empirical evidence shows that they can't, at least for longer than a short period of time. Data shows that most investors are better off with a portfolio that tries to match the market rather than beating it.

Traditional Mutual Funds vs. Exchange Traded Funds (ETFs)

Traditional mutual funds are issued by the fund sponsor. You're always buying from and selling to the fund company. They all trade once a day, at the same price after the market closes. Exchange traded funds (ETFs) trade throughout the day. The ETF price is set by market supply and demand. The ETF structure usually allows for lower fees and better tax efficiency.

Since SoFi Wealth invests in broad market indices, the portfolios are invested in Exchange Traded Funds. ETFs offer us a choice of many liquid, low-cost, and tax efficient fund options that give our members diversification.

What You Need to Know About the Cost of Investments

Funds make money several ways. Fees are often hidden and can eat away at your money. Understanding the cost of an investment is important when making your decision.

Loads

Some traditional funds have an up-front or back-end sales charge, called a “load.” To avoid these costs, look for no-load funds.

Commissions

ETFs don’t have a load, but you may have to pay commission to the brokerage firm through which you buy and sell it. Commissions have come down significantly and several firms offer commission

of less than \$5.00 per trade. Some firms also offer commission free funds with no transaction costs.

Expenses

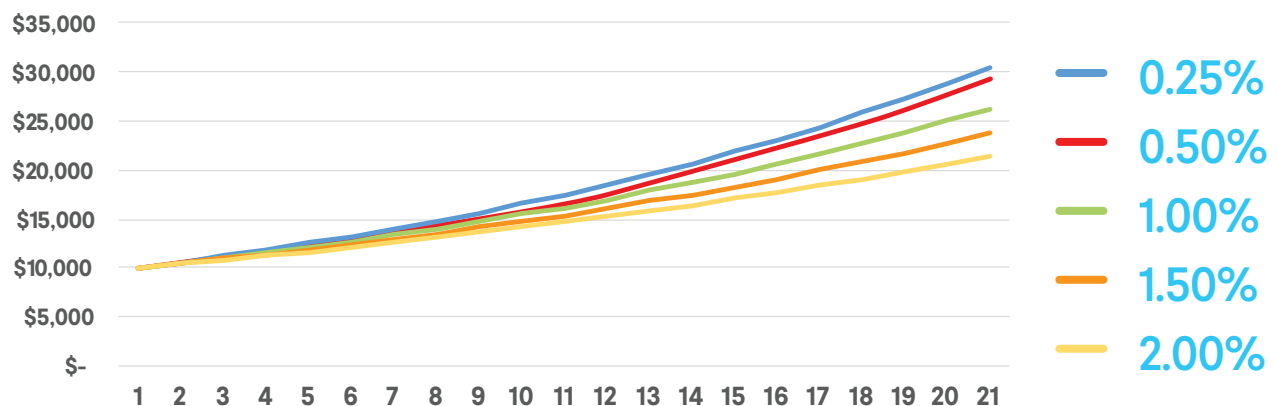
Most funds have operating expenses, which include paying the fund manager(s). This is called an expense ratio—and the lower, the better. Actively managed funds generally have higher expense ratios than passive index funds. At SoFi, we want our members to keep their money. That means we focus on low expense investments and little to no fees.

12b-1 Fees

These are annual expenses for marketing the fund. They vary widely from fund to fund and are included in the expense ratio. Better to avoid them if possible.

Expenses have a huge impact on returns over time. This graph illustrates the impact of different expense ratios on three funds that have the same 6% return (before fees), over 20 years.

Fees Matter - High Fees Cost You Money



Investment return assumes all portfolios have the same securities with this return net of fees charged by the investments themselves. Advisor Fee assumes the total fees charged by the advisory firm, billed in arrears at year end, and that there are no additional transaction fees. Does not include the impact of taxes.



How to Start Investing

If this sounds like a lot—well, it is. There's a lot to learn about investing, but getting started can be simple.

Today, you've finished your first step—understanding how and why to invest, and the different types of options available to you.

At SoFi, we're all about making the hard stuff—easier. A SoFi Wealth account lets you focus on the fun of achieving financial goals with access to all the real human advice you need to plan the right investment strategy for you.

Investing is not just for the wealthy; it's for anyone who wants to achieve financial goals that may seem out of reach.

Ready to get started? Open a SoFi Wealth account or speak with a SoFi Advisor today. Setting up an account online and investing with SoFi Wealth takes about five minutes and builds on everything you've just read. You can set goals and see how likely you are to achieve them. We'll recommend a strategy and diversified portfolio. Next, you'll transfer money into your new SoFi Wealth account from any bank account. We'll get your money invested in a diversified portfolio of low-cost ETFs and you'll be on a path to achieving your goals!

[Get started at SoFi.com/wealth-management/](https://sofi.com/wealth-management/)

Core Principles

SoFi's investing philosophy relies on these core principles:

- Costs matter. Investing in low-cost Exchange Traded Funds (ETFs) representing a broad range of global investment opportunities to give clients broad diversification at a very low cost. We do not charge our borrowers a management fee.
- On average, markets are efficient. We use a Nobel Prize winning theory, Mean Variance Optimization,^[i] to define the appropriate mix of asset classes for our clients' risk level.
- The past is not the future. We adjust both our return expectations and portfolio compositions periodically based on changing market and macroeconomic conditions.
- Match your portfolio to your time frame. Money you'll need soon should be in low risk, liquid assets like savings accounts and money market funds. Investments for long-term goals should be designed for growth and include a higher percentage of stocks.
- Diversification reduces risk. Our portfolios are built to target specific levels of risk with what we feel are the right mix of U.S. and global stocks and bonds.
- Taxes Matter. We build tax-efficient portfolios for taxable accounts and higher-yielding portfolios for tax advantaged accounts.
- Time in the market is more important than timing the market. We make it easy for our clients to get started, make regular monthly investments, and stay invested during periods of market turbulence.

^[i] Markowitz, Harry. "Portfolio selection*." The Journal of Finance 7.1 (1952): 77-91.



About SoFi Wealth

SoFi Wealth's mission is to make professional asset management available to everyone. We offer a low minimum investment, easy online onboarding process, transparent investment choices, and low fees to help our members reach their goals. Our offering is designed to be accessible to anyone who wants complimentary, personalized advice from live advisors, a hands-off wealth management approach, and a professional team to manage their money.

SoFi Wealth, LLC does not render tax or legal advice. Individual circumstances are unique and we recommend that you consult with a qualified tax advisor for your specific needs.

The SoFi Wealth platform is operated and maintained by SoFi Wealth LLC, an SEC Registered Investment Advisor. Brokerage services are provided to clients of SoFi Wealth LLC by SoFi Securities LLC, an affiliated broker-dealer registered with the Securities and Exchange Commission and a member of FINRA / SIPC. Investments are not FDIC Insured, have No Guarantee and May Lose Value. Investing in securities involves risks, and there is always the potential of losing money when you invest in securities. Clearing and custody of all securities are provided by APEX Clearing Corporation.