

Executive Summary: ISLA will now start to accrue significant Reserves in our Savings Account. The interest rate on that account will not keep pace with inflation and ISLA will effectively be losing value on their Reserves. To combat this, the below is a summary of those current details and an investment strategy to allow the ISLA account to maintain or minimally grow its value over time while maintaining a basic level of readily available liquidity for emergency usage.

Current State:

- ISLA Savings Account (Reserves) Interest Rate: **0.29%**
- Average Inflation Rate from 2002-2022: **2.6%**
 - Source: Inflation Rates for the past 20 years.xlsx
- Estimated Reserves value loss annually: **~2.3%**

Proposed State

- Maintain \$5000 in the ISLA savings account for immediate access and emergency use
- Invest the remainder in a lower risk, moderate return investment fund: **VOO (Vanguard S&P 500 Index Fund ETF, rated 5 star by external firm MorningStar)**
 - Lower risk / lower cost than actively managed funds (Prior Vanguard CEO Bill McNabb): <https://knowledge.wharton.upenn.edu/article/vanguards-ceo-on-the-future-of-investment-management/>
 - 10 Year Total Return: **11.66%**
 - <https://www.morningstar.com/etfs/arcx/voo/performance>
 - Expense Ratio (lower is better): **.030%**
 - <https://www.morningstar.com/etfs/arcx/voo/quote>
 - Account Details:
 - Organization Account: Free
 - Minimum Balance to Open: **\$1**
 - Fees to purchase VOO ETF shares: **\$0**
 - Liquidity: **Funds transferred to associated bank account in 2-4 business days**
- **Overall Result:** Roughly 2.3% value will be lost on \$5k of the reserve funds, but the remaining Reserve balance invested will offset that loss and provide (in majority of years based on history) a growth on those funds.

Risk/Recovery:

- Any investment incurs the potential of risk, but a S&P 500 index fund mitigates that risk as its value is tied to the health of the top Fortune 500 companies
- On average the market will incur a significant correction/crash roughly every 8-10 years on average (such as 2000 Dot Com Bubble, 2008 Housing Crash, 2020 Covid Pandemic)
 - <https://www.covenantwealthadvisors.com/post/understanding-stock-market-corrections-and-crashes>

- Value reductions on S&P 500 Index Funds during those crashes has been roughly 30%
 - <https://www.covenantwealthadvisors.com/post/understanding-stock-market-corrections-and-crashes>
- Average number of days to recover is 342
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