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Nine Investment Insights

By Margaret O'Meara, CFP®, AIFA™
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My years as a financial adviser have given me unique insight into the complex relationships between investors and the ever-changing financial markets. While I do not present the following principles as immutable laws, I want to share them with you. They have guided me well.

1. ***People don't invest to become rich. They invest so they don't become poor.*** Individuals invest in stocks to help keep up with the rate of inflation. Bonds and cash may not allow you to keep up. But remember, stocks are more volatile than bonds.

2. ***People won't fault a financial adviser who gets them 1 percent less on their investments. However, they will fault an adviser if he or she loses their money.*** A portfolio manager told me that years ago. The sound and passion in her voice have always stayed with me.

3. ***High fees and expenses will eat into your returns and thus, your nest egg.*** Most people are not aware of all the fees associated with investing. Pay attention to the fees and make sure they are in line with the averages.

4. ***Having to pay taxes should not prevent you from selling a stock.*** Let's assume that you bought a stock for $50 and 14 months later it was worth $100 but you decide to hold it and forgo the $50 profit (minus $10 in capital gains tax.) If the stock then drops by 10 percent, to $90, and the capital gains rate is 20 percent, you'll now make only $32 profit. How many people wish they had paid the taxes in the first place?

5. ***Most people underestimate how long they will live after retiring and how much money they will need.*** Increased longevity has had a major impact on retirement planning. I've often defined a failed retirement as running out of money before running out of time.

6. ***Emotions – not logic – often influences investment decisions.*** Fear leads to panic, and panic leads to the inability to distinguish between a temporary and a

permanent decline in portfolio value. Voices of reason, such as “Stay the course” and “I’m in it for the long-term,” often yield to impulsiveness to sell.

7. ***Don’t constantly look up your account balance.*** You wouldn’t pull up your plants everyday to check on the roots would you?

8. ***Your investment decisions should be based on careful analysis of your time horizon, risk tolerance, expected return and asset allocation preference.*** If a salesman starts fishing around and talks about investments before addressing these issues with you, don’t take the bait.

9. ***It is never too late to start saving and planning for retirement.*** The key is to get started and have a plan.

These principles may not revolutionize the financial world (or even make the best-seller’s list). However, these principles have withstood the test of time. I hope these concepts provoke you into thinking about your own financial beliefs and goals.

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