Daily Herald

Business

SECTION 3

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Down day, but up year

• U.S. stocks ended a strong 2014 with moderate declines Wednesday. Even with the losses, the Standard & Poor's 500 index finished the year up 11.4 percent, or 13.7 percent when dividends are included. It was the sixth straight year of gains for the stock market.

LOCAL Upside

Sears $32.98 +2.24%
United $66.89 +1.26%
Career Ed $6.96 +1.15%

Dow Jones	Nasdaq	S&P 500
Close: 17,823.07	Close: 4,736.05	Close: 2,058.90
-160.00	-41.39	-21.45

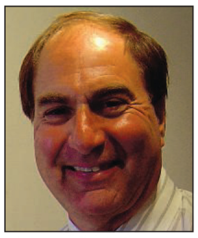
Exelon $37.08 -2.75%
DeVry $47.47 -2.59%
Dover $71.72 -2.44%

LOCAL Downside

A

Resolve to invest wisely in 2015

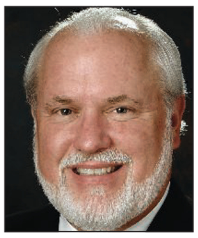
Area financial experts offer their tips


Robert A. Mecca


Mary Rooney


Jim Platania


Eric E. Dunn


Thomas Rowen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Saving money and investing are always on top of the list when mapping out New Year's resolutions.

Sure, there are the obvious ideas: eat out at restaurants less, bring your lunch to work more, put more into the savings account and go shopping for clothes less.

But when looking at personal finances and investing tips, there is more to think about.

For example, National Economic Forecaster Robert Genetski, who speaks often in the suburbs, suggests that younger people and those at least 5 to 10 years from retirement should keep the bulk of their retirement assets in the stock market. In addition, he says, "individuals should avoid making investment decisions based on forecasts of either major short-term gains or gloom and doom."

What else can you do to beef up your savings or your retirement fund? We asked an array of wealth management and banking experts in the area.

• What money management/investing tips you would give consumers for 2015?

• With interest rates at historical lows, there is more probability interest rates will move up rather than down. As Americans should have a bit more pocket change due to lower gasoline prices, now is a prudent time to take the increased net discretionary income and use to pay down adjustable rate loans which are at risk to rise, be more costly, and detrimental to one's future financial security.

• Next, Americans are living longer and the cost to enjoy life is higher. Balancing between living for today and saving for tomorrow is crucial. Strive to save 10 percent to 15 percent of gross income to help attain this delicate balance.

• Choosing where to invest is the toughest assignment. Careful selection of high quality mutual funds, individual stocks and exchange traded funds is critical to financial security. Never choose an investment purely on returns. Studying its historical risk factor with beta and standard deviation, for example, is important. Investing is like a two-sided coin. One side is risk. The other returns.

Combining the fundamentals of both can help secure a wise investment portfolio.

— Robert A. Mecca, CFP, MBA, Robert A. Mecca and Associates LTD, Barrington

• Get comfortable with your investments. If you are concerned with how high the stock market is, consider repositioning your more aggressive stock funds into mutual funds that have historically weathered market downturns. Look for mutual funds with low "beta." Beta is a statistical measurement of how fast a fund moves up and down compared with the S&P 500. The S&P 500 beta is 1.0, so a fund that has a beta of .60 would generally fall less quickly than the S&P 500 (but also rise less quickly too). In addition, consider owning the appropriate amount of fixed income to help reduce your overall portfolio volatility. The more you know about your investments, the more comfortable you will be.

• Maximize dollars going into your retirement plans. Too often IRA, 401(k), 403b, and other types of retirement plans that allow for either tax-deductible or pretax dollars are often overlooked when saving for retirement. Employer sponsored 401(k) plans typically offer a "match" on money you set aside from each paycheck. Identify monies that you can tie up until retirement and then maximize your contributions into the plan that best suits you. Keep in mind, a 10 percent IRS penalty often applies for withdrawals made prior to age 59½. If you are married and both working, make sure to maximize contributions to the 401(k) plan(s) that gives you the biggest match, before contributing to your other options.

— Jim Platania, president of Platania Financial Inc. in Arlington Heights

• Revisit your risk tolerance. Ask yourself how you would feel if the markets pull back a large amount. We have not seen much of a pullback in the past several years and after a nice bull run, it is easy to forget that markets do not always work in our favor.

• Review your allocation and investment objectives and confirm that they align with your risk tolerance. Many portfolios may have taken higher risks during the past year and a total portfolio review is a prudent action to take for the New Year.

— Mary E. Rooney, senior vice president & senior trust officer wealth management at Cornerstone National Bank & Trust Company, Palatine

• Invest in a private equity fund with a good track record that in turn is investing in middle market businesses. Typically the returns produced by private equity firms surpass the S&P 500. Middle market private equity firms invest in businesses that have tremendous potential for growth when provided with additional resources such as capital, professional management and industry contacts. A good private equity firm will bring these and other resources to a an already successful middle-market business which can dramatically accelerate the revenue and earnings growth of that business. The local Chicago market has several high quality private equity funds that have produced 15 percent to 25 percent returns for decades.

• Invest in a diverse portfolio of the stock of companies you frequent and that have products you use. Consider investing across a range of products that you enjoy using and feel are superior to other products and/or services in the market. In the short term, chances are other people will feel the same way you do about these companies and they will grow their sales and earnings. For the investor with a longer term focus, companies that treat their customers well and produce quality products and services usually stand the test of time and perform well in both bull and bear markets.

— Eric E. Dunn, managing director, Focus Capital Advisors Inc., Downers Grove

• Be mindful of interest rate risk inherent in bond investments, including bond mutual funds. The Federal Reserve ended its quantitative easing program of monthly bond purchases at the end of October. Strong U.S. economic performance and a much healthier U.S. job market may cause the Fed to change direction in the next year. The financial markets are watching the Fed for an indication of when it will start raising interest rates, steering toward a more neutral monetary policy. Rising interest rates erode the value of bonds and bond mutual funds as well as other interest rate-sensitive investments. In 2014 we have had a reprieve with bond yields having moved lower, but that may not continue through 2015. Bonds have a rightful place in most investor's portfolios, but it is time to take a careful measure of how much interest rate risk is present. Historically, in rising interest rate environments keeping bond maturities around a 5 to 7-year average has usually produced the smoothest returns.

• Remember that markets move in advance of economic improvement, so maintain some international exposure including both developed and emerging markets. Emerging market equities are the stocks of companies in developing countries in Asia, Latin America, Africa, the Middle East and Eastern Europe. These markets have underperformed U.S. equities over the past two years and are reasonably valued. It is a sound assumption that these developing countries with growing, younger populations will likely generate greater economic growth and innovation. We recommend they be included as a part of a globally diversified portfolio that also includes U.S. and developed international stocks. Investors should remember that emerging market countries are usually subject to greater political and economic risks, with higher market volatility. Therefore, a good approach is to take a modest position using diversified emerging market investments that avoid targeting a specific country or region.

— Thomas G. Rowen of Bartlett, vice president and senior Institutional Portfolio manager, Fifth Third Investment Management Group in Chicago

• First, I'd caution long-term investors from reacting too quickly in 2015 if things get volatile. Remember, normal market volatility can be more than 14 percent down in an average year, and the past three years have been uncharacteristically smooth. Long-term investors need to stay the course with their allocation and rebalance even in the throes of volatility that we may see more of in 2015.

• Second, I hope investors continue to monitor their bond portfolios. We keep hearing rates will move up, but no one has any clue when it will actually happen. Bond investors that continue to focus on high quality bonds, and bond funds, with short durations will be better insulated from interest rate risk when, and if, rates rise.

— Nick Cosky, certified financial planner, Balasa Dinverno Foltz LLC in Itasca

• Business Writers Richard Klicki and Anna Marie Kukec contributed.