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Foresight

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Greetings!

Thanks for returning on this fine spring day to read the April edition of Foresight. Each month I'll share thoughts on various topics in the world of personal finance, investing, economics, and business through my writings below. May you find my musings informative, thought provoking and enjoyable.

Thoughtfully,

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What Should Investors Do Now During a Surging Market?

When the markets are on the rise, equity investments of some style, asset class/location, and/or size are all the rage, and no one can have too much of them in their portfolio. Everybody wants peek-performance, and nobody wants to hear that some of their assets should be in bonds, REITs, or other more conservative investments sometimes referred to by people such as me, as non-correlated assets (i.e. investments that are and will not rise and fall with the current hot investment). Diversification usually goes out the door because, in the short-term, a diversified portfolio can't out-perform a portfolio that consists only of the best-performing investment asset class (s). Yet for those who have been alive and investing since 1998, you are painfully aware that one year's out performing investment (think Tech companies 1998-2000 or Real Estate 2004-2007) can become the disaster investment for the next one, three, or more years.

Say in any given year when the Standard & Poor's 500 Index rewards investors with a 20% return, who would be satisfied with a diversified portfolio that delivered *only* 12%? Who would have been willing to leave that 8% on the table, perceivably at the given time, year after year as the

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markets soared? The story is the same on the way back down as 2008 through the first third of 2009 illuminated. When markets are getting crushed, and stocks are on sale, few investors buy. Instead, many look to low-yielding money markets and bonds as safe places to wait out the tough times. Think about this strategy for a minute. If many of the so called best professional investors in the country not only missed the onset of the bear market, but also got fooled by big companies "cooking the books," what are the odds that an individual investor can accurately predict the market bottom just in time to jump back in and make a fortune as the markets bounce back? The reality is that nobody can consistently pick the best-performing asset class year in and year out.

Investor Sentiment Meets Reality

That bull market in the rearview mirror looks better and better everyday. It was a great run, but nothing lasts forever. Uncertainty is a fact of life, and nowhere is this more apparent than in the financial markets. When you hear that somewhat comforting statistic about how stocks generally deliver returns of about 8% per year, it's easy to overlook that a year when the market is down -28% and a year when it is up 44% produce an 8% average. When the markets deliver successive years of negative returns, that 8% can be hard to envision as the past decade should be a teachable moment for us all. Thus with the Standard & Poor's 500 Index now up more than 75% from its low established on March 9, 2009.

So what should you do? Do you get out of the markets for good? Your course of action depends entirely on your personal financial situation. If you're wealthy enough that you no longer want to worry about eye-popping returns on your money, perhaps you have come to realize that you don't have the appetite for risk that you once thought you did. If that's the case, be thankful for your good fortune and, lesson learned, reallocate your assets to more conservative and income generating investments. Oh, and when I use the word *wealthy* it is in the context of you having accumulated enough *wealth* to sustain the lifestyle that makes you happy, so everyone who is reading this has a different *wealth requirement!*

If, on the other hand, your personal financial situation will require substantial growth of your portfolio to meet your *wealth* needs in the years ahead, completely abandoning all the equity markets may not be an option.

What's Your Strategy?

To figure out which investments will serve you best tomorrow, start by taking a look at your investment strategy today. What investments do you have in your portfolio? Why are they there? What are you trying to achieve? If you invest without clear objectives, it is highly unlikely that you will achieve satisfactory results.

To address the situation properly, initially ignore what is

happening in the stock, bond, or other markets and focus instead on your personal financial situation. How much money are you looking to accumulate? Why did you pick that number? And how soon do you need it? How much risk do you need to take to achieve that goal?

It is often recommend that you put your goals and strategy in writing. In financial services terminology, this written statement is known as your investment policy statement. An investment policy statement serves many purposes. Initially, it helps you confirm that you have set realistic goals and reasonable timeframes for their achievement. Later, if the markets turn ugly and you're tempted to sell your investments, an investment policy statement helps you maintain your focus. Whether the market is up or down on any given day doesn't change the specific amount of money you will need to fund your retirement, pay for a child's education, provide a scholarship fund, or achieve other financial goals. So, before you make a change to your portfolio, go back and re-read your investment policy statement. If your objectives haven't changed, neither should your strategy unless either your objectives or your strategy was based on some conditions that are no longer achievable.

Long-term investing isn't about chasing hot investments to boost performance. Investing is all about strategy, and a good strategy isn't something that should change every time the Dow jumps, the S&P drops, interest rates change, or real estate declines. If you've got concerns about the current market conditions, the questions you really need to ask yourself is "What's my strategy?" and "Why is that my strategy?" Answer these questions and you'll be better prepared the next time the market delivers a steep decline or a terrific advance.

Learn more on how to get good investment advice.

Create a College Funding Strategy

With all the other expenses competing for your monthly income - mortgage, car payment, 401(k) plan contribution, and the like - carving out a small sum of money to save every month for college isn't easy. However, the earlier you start the more you're likely to accumulate.

Let's compare two hypothetical examples. The Smiths and Jones both want to send their children to a college whose four-year total cost is approximately $40,000. The Smiths start saving as soon as Junior is born, putting away $100 per month earning 8% per year. By the time Junior is ready for college, they will have saved $48,749 - more than enough to cover the entire cost plus account for inflation.

The Jones, however, wait until Precious is 10 years of age before starting to save. Even though they can put away $250 per month, when Precious is ready for college eight years later they have only saved $34,163 - meaning they'll

have to make up any shortfalls out of pocket.

Of course, these hypothetical examples are for illustration purposes only and do not represent the return of any specific investment. Also, taxes, fees, and other costs are not considered. But the message is clear: The earlier you start, the less you'll need to save each month and the more you're likely to end up with by the time you send your child or children off to State U.

Fortunately, several savings and investment strategies exist to help you accumulate assets for college.

College Funding Ideas

1. Assess your needs. To determine how much to save, you need to estimate the future cost of tuition at public and private institutions. With education cost rising an average of over 8% a year for four-year institutions, you must save with inflation in mind.

2. Save early and often. The sooner you begin to set aside funds for college, the less you will have to save on a monthly basis. Allow your investments to grow along with your child.

3.Set up a systematic savings plan. Try to save monthly or quarterly, just as you would if you were paying off a car or a mortgage. (Please note, such a period savings or investment plan does not assure a profit and does not protect against loss in declining markets.)

4.Keep a separate college account. The most popular are custodial accounts. These accounts ease the tax burden by allowing parents to shift some of their assets to the child at the child's lower tax rate.

5. Involve the family. Children are more aware of family finances and accept responsibility when they are involved. It also becomes easier for you if the child is able to contribute to the fund.

Create an incentive program with your child. Offer to match the money the child makes to his own account. Teach him or her to work and help contribute to their fund - they will value their education even more.

College funding takes discipline, effort, and planning. It's also becoming more complex every year. Rely on our financial planning expertise to help design a program that best fits your family's needs and situation. Visit us online to learn more about college funding strategies.

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individual professional advice. Past performance is no guarantee of future results. Diversification does not ensure against loss. Source: Financial Visions, Inc.

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