

CETERA INVESTMENT
MANAGEMENT

Doughnuts:

*Quite Possibly the Tastiest
Way to Educate Yourself
About Investing*





Forrest Gump stated that, “Life is like a box of chocolates. You never know what you’re gonna get.” The same can be said for the morning box of doughnuts brought into

the office by your (now favorite) coworker. What surprises await as you lift the lid: glazed, chocolate frosted, jelly filled, maple, powdered? In honor of this month’s National Doughnut Day, we’re getting to the delicious center of what doughnuts can teach us about investing.

Diversification

If you’re starting a new job and want to endear yourself to your coworkers, you might be the one bringing in that box of doughnuts.* Instead of a box containing only one kind—such as all glazed**—you’d likely bring in a variety of flavors, as you can’t see into the future to know what your new coworkers like.

An investment portfolio should contain a variety of asset classes for the same reason: no one can predict the future, and diversifying helps you prepare for a variety of possible futures. For example, U.S. and international equities provide higher long-term return potential, as well as geographical diversification. Bonds and cash can mitigate market risks, as can alternatives, with their lower correlations to traditional asset classes. Just as one can vary the ratio of Boston creams to jellies to frosted sprinkles to suit tastes, the proportion of your money in each asset class can vary to suit your time horizon and risk tolerance.

* This is a particularly wonderful idea if you are joining the Cetera Investment Management team.

**Totally fine. We’ll take it.

¹ National Today Donut Day Survey. Retrieved from <https://nationaltoday.com/national-donut-day> on 5/21/2019.

² Taylor, D.A. (March, 1998). A history of the doughnut. Smithsonian Magazine. Retrieved from <https://www.smithsonianmag.com/history/the-history-of-the-doughnut-150405177/> on 5/22/19.

³ Boissenaault, L. (April, 2017). The women who fried donuts and dodged bombs on the front lines of WWI. Smithsonian.com. Retrieved from <https://www.smithsonianmag.com/history/donut-girls-wwi-helped-fill-soldiers-bellies-and-get-women-vote-180962864/> on 5/23/2019.

THE SOMEWHAT HOLE HISTORY OF DOUGHNUTS

Doughnuts are liked by 96% of the population,¹ but we’re guessing far fewer are aware of these fun facts.



Fried dough has been enjoyed by people around the world for millennia, but **doughnuts as we know them got their start in the 19th century** as descendants of the Dutch “olykoeken”—or “oil cakes.”²



Olykoeken were round fried balls of dough, and frequently a perfectly cooked exterior left raw dough at the center. Enterprising cooks put fruit or nuts—which didn’t need to cook—in the middle, furthering use of the term “doughnut.”²



In 1847, American ship captain Hansen Gregory, whose mother sent him to sea with stuffed olykoeken, came up with the **idea of punching a hole in the dough** to avoid the uncooked center altogether, giving us the modern shape we know and love today.²



National Doughnut Day has been celebrated on the first Friday of June since 1938 as a way to honor the women known as “Doughnut Lassies” who served pastries to troops in the trenches of France during WWI.³



Is it doughnut or donut? Strictly speaking, it’s *doughnut*, but *donut* is a perfectly acceptable and shorter alternate form. We’ll take one of each, please!



Inflation

Back in the 1950s, a dozen doughnuts from a popular chain would have run you 69¢. Today, that same dozen will cost about \$10—an increase of nearly 1,350%! Tragically, like most things in life, doughnuts continue to get more expensive over time, illustrating inflation and the ever-declining purchasing power of a dollar—two of the biggest threats to the long-term value of one’s savings.

How can you keep up? Investing! Stocks, bonds, real estate, and many alternative investments have stayed on par with or exceeded inflation over time. U.S. large cap stocks, as an example, have beat inflation by about 6% over the long run, helping portfolios keep pace with the rising cost of living.

Comfort

For many, doughnuts are the ultimate comfort food, and a prime target for a little overindulgence. Eat a few and you just feel better, maybe even settling into a pleasant “food coma” nap. A well-constructed portfolio built around your financial needs can be every bit as gratifying, and help you sleep better at night knowing you have a plan for the future.

There are important differences, however. While the gratification from doughnuts is instantaneous, the lull is short-lived. A sound financial plan can take more time to develop, but can provide comfort for years to come. Money issues are among the biggest stressors in people’s lives, and a leading cause of divorce. So if you want to rest soundly, feel comforted, and hedge against economic and waist inflation, drop the doughnut*** and pick up your phone to discuss your finances with your advisor.

Boxing It All Up

Aside from being delicious, doughnuts are a fun way to illustrate the value and power of investing. They are a reminder of the benefits of diversification, the importance of guarding against inflation, and the comfort of feeling prepared for the future.

Unfortunately, there is another less-fun analogy between doughnuts and Americans’ savings and retirement plans: many have holes in them. But while holes in doughnuts are there by design, a solid financial plan shouldn’t leave anything out—and even give you a little room to indulge in your favorite treats.

Working with your financial advisor can help ensure you have a healthy variety of investments so you can be more confident that you do know what you’re getting in your financial future. One thing is for sure: you “doughnut” want to miss out on the opportunities he or she can provide! (We couldn’t resist.)

***In the mail to us works.



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A diversified portfolio does not assure a profit or protect against loss in a declining market.