SEVEN

PRINCIPLES OF LONG-TERM

INVESTING

HWM

HINES WEALTH MANAGEMENT℠

Hiding your money under your mattress, as an investment strategy, is probably not a good idea.

You put your money at all sorts of risk: fire, floods, forgetfulness. And besides, under your mattress is usually the first place thieves go to look for your stash.[1]

Yet, despite that seemingly nonsensical notion of wealth management, about 43% of Americans maintain their savings in cash (maybe not exactly under their mattresses).[2]

Keeping a small amount of cash at home might be a good idea for emergencies.

But in the long run, the mattress stash cash option represents the role your money shouldn't play in your life. Since money is obviously transactional in nature, it should be producing something for you. After all, you worked for it; it should return the favor.

Our marketplace economy provides ample "employment" opportunities for your money—and hiding it under the mattress (or even letting all of it rest securely in a bank account) is certainly not one of them.

LOOKING BACK.

So, what options do you have to get your money to roll up its sleeves to do some heavy lifting, on your behalf?

The short answer: *Investing*.

Many historians believe investing officially began in Europe in the 1600s.[3] However, early records show Babylonian King Hammurabi, who reigned from 1792 to 1750 B.C., may have implemented the original investment principles in the Code of Hammurabi, a collection of 282 rules, which governed commerce and instituted fines and punishment for civil infractions.[4]

Investing—in one variation or another—has been around for antiquity. It is a way of sowing one's wherewithal into society or the environment in the hopes of producing gain.

In a sense, early humans adhered to the rudimentary principles of investing by planting seeds in soil for the expected multifold harvest of food: A few seeds judiciously planted in the earth are expected to generate provision and prosperity for entire families and communities.

While investing today has monetary implications, it may be considered one of the most profound attributes necessary for us to survive and to flourish in our human cultures.

LOOKING AT TODAY.

Investing enables us to put the fruits of our labors to work. It allows us the potential to build wealth for the future, particularly for retirement. But despite the opportunities to invest and to create adequate savings for later years, 42% of Americans will retire with less than $10,000 saved or invested.[5] But it doesn't have to be that way.

Here are some interesting facts about the importance of investing:[6]

• While a good time to start investing for retirement is when you're a young adult, if you're in your middle-aged years, it's not too late. Although you may need to save three times more if you start at 45 than if you started investing at 25, your goal of building a healthy nest egg may be within reach. Investing $10,000 annually for 20 years (assuming an 8% growth rate) may land you at $500,000 for retirement. The same amount at the same rate over 10 years may produce $156,000.

• Inflation appears to be the hidden culprit for those who choose not to invest. The average rate has remained around 3% per year for a long time, which is not a big deal, right? But $100,000 turns into $54,000 in purchasing power over 20 years at that rate. Your investment strategy should keep abreast of the creeping influence of rising prices. That's why putting your money to work is important.

• Some who have reservations about the merits of investing point to the market's sometimes frequent and dramatic downturns. However, in the last 70 years, stocks have risen around 1,100-fold. That would mean a $1,000 investment in the late 1940s could be worth more than $1 million today.

Potential earnings on investments vary—and all investments are subject to loss. Choosing where and how to invest depends on your risk tolerance and your goals. Consult with a financial professional to get more information.

*These are a hypothetical examples and are not representative of any specific situation. Your results will vary. The hypothetical rates of return used do not reflect the deduction of fees and charges inherent to investing.

Take advantage of the market potential.

Investing provides you the opportunity to pursue your financial goals and to shape your own future.

HERE ARE SEVEN INVESTMENT PRINCIPLES:

1. Establish balance.[7]

Your investment portfolio should be diversified to mitigate the possibility of loss and to allow for greater financial growth potential.

Asset allocation allows you to put your money in a variety of investment classes, such as stocks, bonds, cash, real estate, metals, or other commodities.[8]

This strategy may help shield portfolios from losing value if one investment category begins to fall. For example, investors may move their money into more stable categories, such as bonds, when stock prices fall. The different movements and volatility of each of the indexes allow holders of diversified portfolios to balance the overall impact of market fluctuations.

The primary parts of diversified portfolios include domestic stocks, bonds, short-term investments, and international stocks.[9]

Bonds are generally considered less volatile and may provide a steady interest income. Money market funds and short-term certificates of deposits are short-term investments. Stocks pose greater market risk and are considered more aggressive investments. Stocks from foreign companies, in particular, provide investors with some unique and riskier opportunities that may not necessarily follow U.S. investment protocols.

2. Make the choice.

Most investors make long-term investment decisions with one target in mind: building for retirement. One approach to long-term investing is taking advantage of employer-sponsored 401(k) plans. The deferment on federal taxes reduces employees' immediate annual taxable income. (Taxes are paid when funds are withdrawn often during retirement.)

Some employers make matching contributions to 401(k)s. Employers' contributions may be considered an incentive to enrolling in employer-sponsored plans. Many employers provide 50% matches of employee contributions up to employees' first 6%.

Federal rules prohibit contributions to many retirement accounts, such as traditional IRAs, once you turn 70 ½. However, employer sponsored 401(k)s do not have the same contribution restrictions. You may continue to make contributions as long as you are still working.

Many retirement plans require you to begin taking required minimum distributions (RMDs) once you reach the age of 70 1/2. However, RMDs are not required for employer's 401(k)s as long as you are actively working and don't own more than 5% of the business.

3. Take the (appropriate) risk.
You can't understate the fact that the stock market fluctuates. It has sailed the blustery waves for more than a century—with a few notable exceptions.[10] With that in mind, investors must realize that investing involves risk. Corrections do happen. But experience suggests that the best approach may be to hang on for what has historically been a growing market.

While risk is inevitable and integral to the market, one of the most important questions you should ask yourself is: How much risk are you willing to accept? If you're in your 20s, you may have another four decades before you plan to retire or before you need the money for a sizable purchase; if you're in that age category, you may consider pursuing higher-risk investments that would weather the long-term market fluctuations.

However, if you're in your 50s or 60s and retirement is within sight, you may opt to go with less risky investments.

4. Make regular contributions.
One way to build wealth over the long haul is through investing in the stock market.[11] However, as with any long-term pursuit, investing requires consistency and discipline. You probably won't be able to generate great wealth by dropping change in a jar or by making occasional deposits in your retirement or investment account. By developing the habit of making regular and frequent deposits, your investment may grow over time.

One approach is setting up automated payments to your 401(k) or other investment plan.

Automatic investments help make your life simpler by eliminating the need for creating reminders.[12] It helps instill discipline and avoid the temptation of making impulse purchases or sudden stock sales.

Automatic investments allow you to do dollar-cost averaging, a way of purchasing stocks over time to help reduce investment risk.[13] Fund managers use the same dollar amount to make purchases; when prices are low, more are acquired; when prices are high, less of them are bought. Dollar-cost averaging is often used with 401(k)s.

Investing enables us to put the fruits of our labors to work. It allows us to build wealth for the future...

5. Understand your investments.
You may not want to buy a car without understanding at least the basics about the make, the model, and how it performs. Buyers often test drive vehicles to determine if they're good fits or do other research.

The same principle applies to other areas of your life, such as health care and buying a home. Investing should be no different. You should have at least a basic understanding of the businesses or funds in which you plan to invest.

Experts say a good understanding of the businesses or funds you choose may help you distinguish between the investment "noise" and meaningful information to help shape your decision making.

Considering the wide berth of investment opportunities, the notion may initially appear to go against or complicate the first principle: diversification. Some analysts, for example, suggest stepping away from the traditional model of investing in brand names or domestic markets to explore more risky and potentially profitable endeavors.[14]

Many investors opt for the "home bias" opportunities[15] and overlook the potential broader foreign markets may provide. Investing in some foreign markets as part of an expansive portfolio also may help to lower risk.[16]

Still, understanding the basic components of an industry is necessary for developing a responsible investment plan. Doing your homework may help alleviate confusion and offset any possible missteps later.

6. Start early or as soon as possible. You may have heard the mathematic explanations for investing early and often. Look at this one: You're 25; you invest $300 a month for the following 10 years. You generate a 6% return on your investments. When you're 35, you'll have $48,544.[17]

Let's up your monthly contribution to $600 for the next decade. You'll have $181,451. In this model, both your principal and the investment gain are growing.

Let's add another $600 per month ($1,200) to your investment savings for another 10 years. At 55, you'll have $526,438. Bump it up to $2,000 a month for another 10 years, and by the time you reach 65 you'll have $1 million.

If, however, you wait until you're 35 to start, you'll be more than $700,000 short of the millionaire mark at retirement age.

What makes this formula even more compelling is what it doesn't include (employer contributions, for example) and what it assumes (a conservative market growth percentage).

Some companies offer 50% matches to worker's contributions up to 6% on employer's 401(k) retirement plans. The S&P 500 Index has produced an average annualized gain of 11.69% between 1973 and 2016.[18] From a historical perspective, the 6% growth rate in this example would be considered conservative.

The benefits of investing early become more apparent when you compare, in another example, the earnings of two people, both age 20. The hypothetical market is generating a 7% return.

Eric Early invests $100 a month until he's 30. He doesn't contribute anymore to his account until he's 60.

Linda Later begins investing in her account when she's 30. She puts in $100 a month for 30 years until she retires at 60.

Eric Early started early and invested a total of $12,000. Linda Later started later and invested a total of $36,000. At 60, Eric has $141,303.76. Linda has $122,708.75.[19]

If, however, Eric Early continued investing $100 a month at the 7% rate until he turned 60, he would have $264,012.51. The lesson: Invest early and keep it up.

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7. Don't get emotional.

Conventional wisdom warns against processing your investment decisions through an emotional filter. While that's good advice, it needs some elaboration.

Making investment decisions—from a sense of exuberance or panic—has the potential to set the stage for disaster or, in the absolute best-case scenario, missed opportunity.

The market has fluctuated sometimes wildly over its more than a century of history. Over the decades, it has plummeted to horrific lows and risen to stratospheric heights. For the most part, however, the market's trajectory has gone up, slowly and progressively.

The stock market's average return, as measured by the S&P 500 Index, has risen by about 10% per year over the last 100 years.[20] That upward jagged trajectory is generally cause for optimism over the long term.

The market's occasional tumbles have sent many emotional investors into panic and quick exits. Some market analysts look to the horizon. Stocks do fall, but, if history is any indicator, they will rise again. (It's worth repeating that while history provides some peripheral reassurances, the market can never offer any guarantee.)

The takeaway: It's often better to hang on for the ride than to jump ship based on emotional reactions to the media "noise."

While detaching ourselves from our emotional or behavioral inclinations may be challenging, we can put them into context and rely on the guidance of financial professionals. This gives us the opportunity to prevent, at least partially, our emotions from shaping our biases.[21]

Emotional biases may include overconfidence, lack of confidence, fear of risk, overreacting to the latest investment news, following the latest trends, reacting by instinct or gut, investing based on personal attachment, overreacting based on past experiences, or, ironically, stoically ignoring the emotions of investing.

Responsible, clearheaded planning and steady monitoring of the market may help you successfully pursue your long-term investment goals.

CONCLUSION

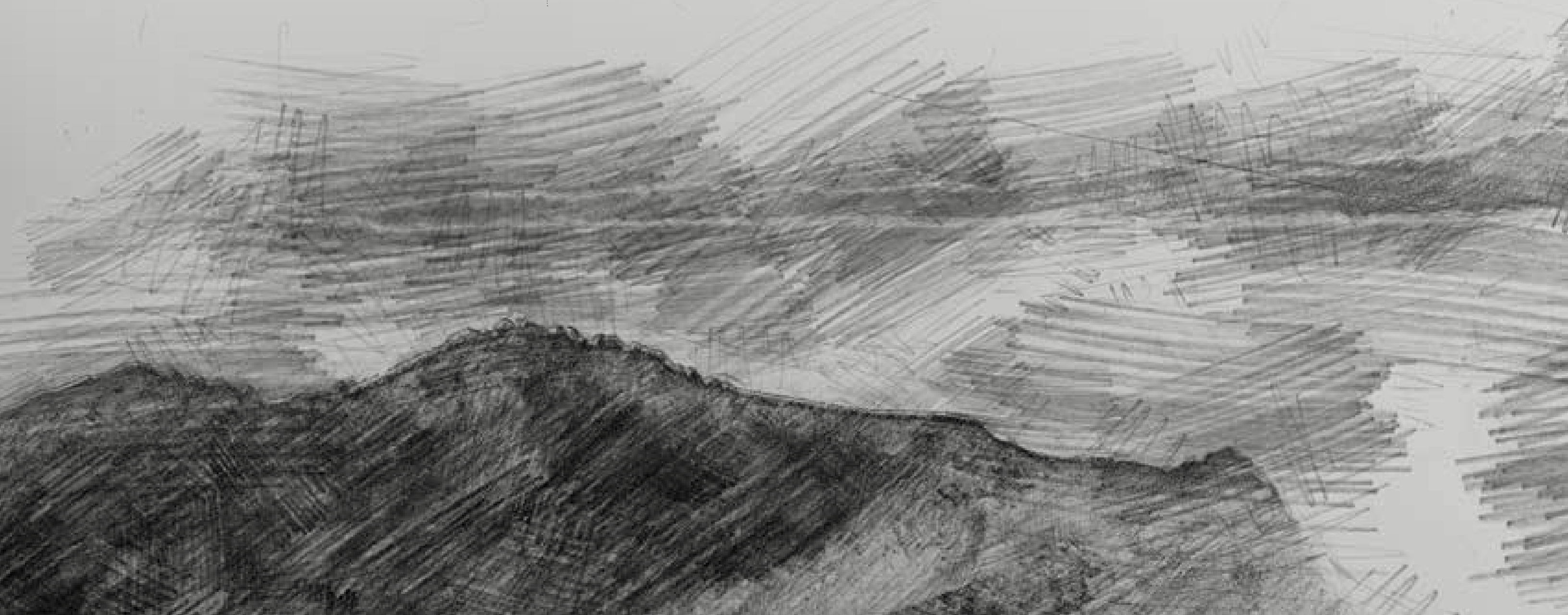
We hope you found this report educational and informative. You may incorporate the principles in this report into your retirement strategy to help optimize your investment goals.

Working with a financial professional may help equip you to find the solutions that may fit your retirement lifestyle.

If you or anyone close to you would like to discuss how to maximize your portfolio with a professional, please give our office a call at Toll-Free | (888) 674-6777 to schedule a consultation.

Warm Regards,

Eugene Harvey Hines, CFP®, PPC™



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Diversification cannot guarantee a profit or protect against loss in a declining market. Past performance does not guarantee future results

Certificates of deposit are FDIC, whereas stocks and bonds are not.

Asset allocation does not ensure a profit or protect against a loss. Dollar cost averaging involves continuous investment in securities regardless of fluctuation in price levels of such securities. An investor should consider their ability to continue purchasing through fluctuating price levels. Such a plan does not assure a profit and does not protect against loss in declining markets. An investment in the Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the Fund. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Consult your financial professional before making any investment decision. Opinions are not intended as investment advice or to predict future performance.

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Please consult your financial advisor for further information.

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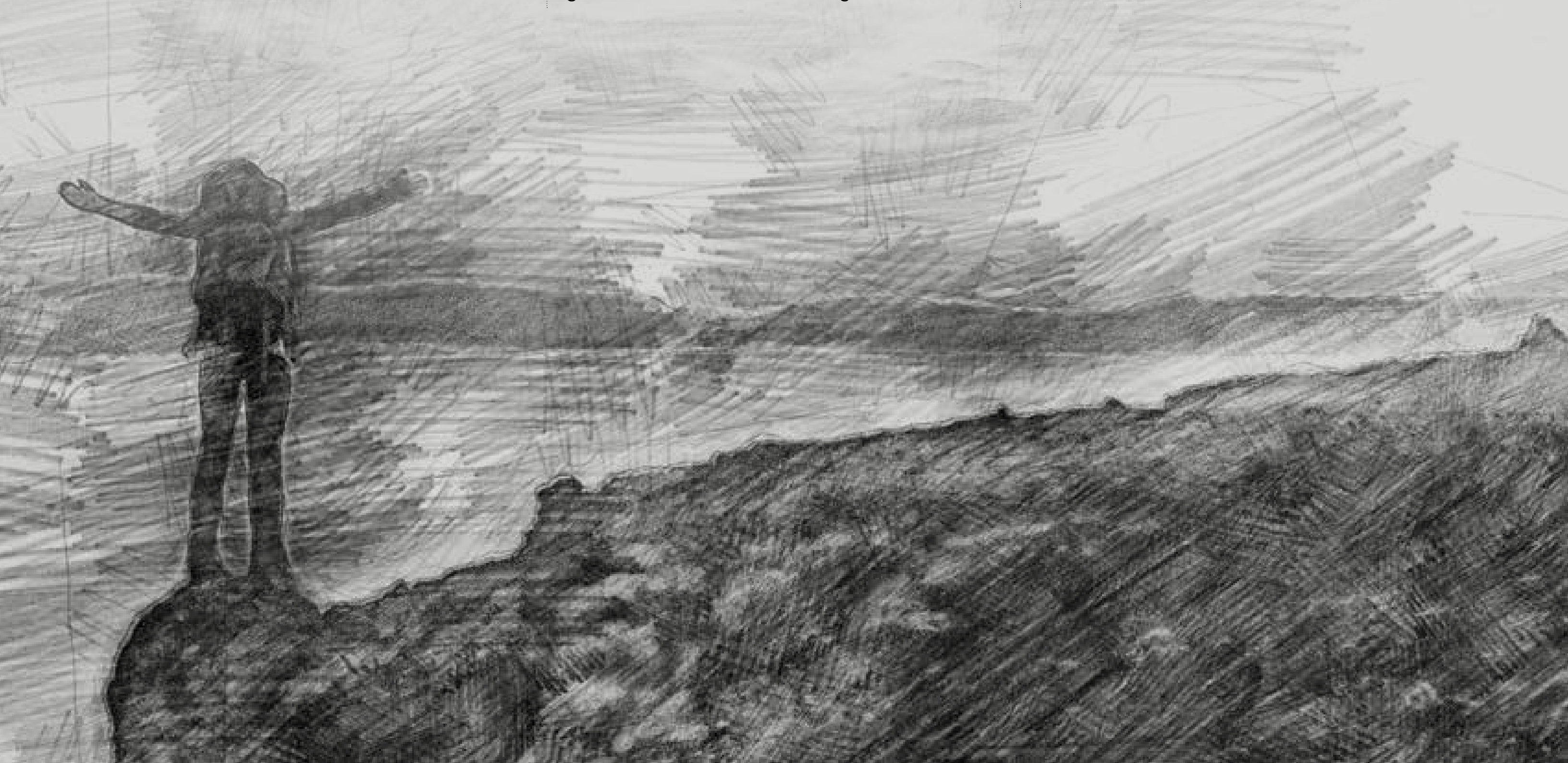

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HINES WEALTH MANAGEMENT℠

Hines Wealth Management, LLC
125 Wappoo Creek Drive
Bldg. E, Ste. 101A
Charleston, SC 29412-2160

Toll-Free | (888) 674-6777
Office | (843) 480-7986
Fax | (888) 608-0849
Direct Line | (843) 790-8790

EHHines@HinesWealth.com
www.HinesWealthManagement.com