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Financial Briefs

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Avoid These Investor Mistakes

Avoid these common mistakes when making investment portfolio decisions:

- **Chasing performance.** Investors often pull out of sectors that are not performing well, moving that money to high performing investments. But the market is cyclical, and often those high performers are poised to underperform, while the sectors just sold are ready to outperform. A classic example is technology stocks in early 2000. Many investors rushed to purchase technology stocks just as they reached their peak and were headed for a long slide down. Rather than trying to guess which sector is going to outperform, broadly diversify your portfolio across a range of investment sectors.
- **Looking for get-rich-quick investments.** When your expectations are too high, you have a tendency to chase after high-risk investments. Your goal should be to earn reasonable returns over the long term, investing in high-quality investments.
- **Avoiding the sale of an investment with a loss.** When selling a stock with a loss, an investor has to admit that he/she made a mistake, which is psychologically difficult to do. When evaluating your investments, objectively review the prospects of each one, making decisions to hold or sell on that basis rather than on whether the investment has a gain or loss.
- **Selecting investments that don't add diversification benefits to your portfolio.** Diversification helps reduce your portfolio's volatility, since various investments respond differently to economic events and market factors. Yet it's common for investors to keep adding investments that are similar in nature. This does not add much in the way of diversification, while making the portfolio more difficult to monitor.
- **Not checking your portfolio's performance periodically.** While everyone likes to think their portfolio is beating the market, many investors simply don't know for sure. So analyze your portfolio's performance periodically. Compare your actual return to your targeted return. If you aren't achieving your targeted return,

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7 Psychological Traps

Sometimes, when it comes to investing, volatile markets aren't your worst enemy. You are. Unfortunately, our brains often play tricks on us, causing even the savviest of investors to make decisions that don't really make a lot of sense, such as panic selling or ignoring opportunities.

The problem of psychological investing traps is so pervasive, in fact, that there's a whole field dedicated to studying it called behavioral finance. Researchers in this discipline look at the way psychology affects how we make financial decisions. Knowing about these traps can help you avoid them and make you a better investor. Here are seven psychological traps to keep in mind.

Sunk Costs Bias — The sunk costs bias has to do with the all-too-common tendency to stick with something, whether a bad boyfriend or a bad investment, long after it's clear that it's not worth it anymore. Still, because you've invested a certain amount of time or money, you're reluctant to give it up. In investing, you might end up hanging on to a stock long after you should sell it in the vain hope that you'll eventually come out ahead. But in these cases, it's better to cut your

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Investor Mistakes

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you risk not achieving your financial goals. Now honestly assess how well your portfolio is performing. Are major changes needed to get it back in shape?

- **Letting market predictions cause inaction.** No one has shown a consistent ability to predict where the market is headed in the future. So don't pay attention to gloomy or optimistic predictions. Instead, approach investing with a formal plan so you can make informed decisions with confidence.
- **Expecting the market to continue in its current direction.** Investors tend to make investment decisions based on current trends in the market. Thus, if the stock market has been performing well for a period of time, investors tend to move more and more funds into that area. However, when the markets have an extended period of above or below average returns, they have a tendency to revert back to the average return. For instance, following an extended period of above-average returns in the 1990s, the stock market experienced a significant downturn, helping to bring the averages back in line.
- **Not understanding that saving and investing are two different concepts.** Saving involves not spending current income, while investing requires you to take those savings and do something with them to earn a return. Saving often becomes easier when separated from the choice of where to invest. Find ways to make saving as automatic as possible, then take your time to research and select specific investments.
- **Considering only pretax returns.** One of the most significant expenses that can erode your portfolio's value is income taxes. Thus, don't just consider your pretax returns, but look at after-tax returns. If too much of your portfolio is going to pay taxes, implement strategies that can help reduce those taxes.
- **Not realizing that help is only a phone call away.** The investment world has become very complex, with a vast assortment of investment vehicles now available. If you need help with your investment decisions, please call.

4 Reasons for Goal-Focused Investing

The fact is, investing isn't just about making your money work for you. It's about making your money work for you for a particular purpose. In other words, you need a goal. Here are four specific reasons why a goal-focused approach to investing is important.

Because It Puts You In Control

When you first start investing, it's easy to get overwhelmed. You may feel like you have little control over what happens to your money. No matter how careful you are, you could lose what you invest. When you think of it that way, it's easy to question whether investing makes sense at all. But if you take a goal-focused approach to investing, you're not just watching the value of your portfolio rise and fall based on the whims of the market. You (along with your advisor) are making specific decisions designed to help you reach specific goals. If something's not working, you change the plan.

Because It Will Be Easier to Save

Saving money just to save money is no fun for most people. After all, why invest a portion of your paycheck for the future when you could have something you really want today? Having concrete goals can turn saving from an abstract concept to a concrete step to achieve a certain aim — like being able to retire one day, take a trip around the world, or send your grandchildren to college. And studies have shown that the better you are at setting goals, the more you're likely to save. You might even do better by focusing on the intermediate steps on the way to your larger goal, like having a certain amount of money in your retirement accounts by age 45.

Because You'll Be Less Focused on How Others Are Doing

A little competition is healthy, but when it comes to investing, it can get risky. If your father-in-law is bragging about the great return he got on his investments, it can be tempting to drop your plan and copy his moves. It's especially tempting if your only goal with investing is to make more money. But if you're investing toward a goal with a clear plan, you'll be able to congratulate your relative on his success while staying focused on your needs. After all, if you were flying from New York to London, you probably wouldn't suddenly take a side trip to visit Buenos Aires. That's exactly what you're doing if you get distracted by other people's investing moves.

Because It Will Help You Weather the Ups and Downs of the Market

The market goes up and the market goes down. Sometimes, it goes way, way up or way, way down. Just like a roller coaster, these peaks and dips can make your stomach do flip flops, especially when your life savings is on the line. But having a goal-focused approach can help you cope with those ups and downs. If you know that you won't need your money for another 30 years, you can handle some volatility today. But if you're going to need your money in the next couple of years, you can select less volatile investments, so the day-to-day movements of the market won't stress you out. Knowing your specific goals will help you choose the right investments.

If you need help setting your own investing goals, please call.

7 Psychological Traps

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losses rather than to hang on to a loser.

Familiarity Bias — Most of us are biased toward what is familiar to us. We head to restaurants we've been to before and follow the same roads to work because we know what to expect. With investing, familiarity bias involves favoring investments that are familiar to you. You might prefer to invest in the company you work for or big-name businesses that are in the news. That could cause you to overlook important opportunities you don't know as much about.

Anchoring — Anchoring is the process of getting attached to a particular reference point — such as the price you paid for a stock — and using that to guide future decisions. Or you might fixate on a stock's previous high, even though that price was an anomaly. Anchoring is why buyers think they got a great deal when buying a car for $50,000 when the initial price was $60,000, even though the car's really worth $40,000.

Whether buying stocks or cars, anchoring involves using a single piece of information to determine what a stock or other investment should be worth while also discounting more relevant information, such as a company's fundamentals or broader economic trends. Unfortunately, avoiding anchoring is difficult, but considering all available information before choosing an investment can help.

Focusing Too Much on the Recent Past — Recency bias is the tendency to make decisions or judgments based on relatively new or recent information. For example, during times when the market is up, people may ignore or discount the possibility of a market decline. Or, if a certain category of stocks has done poorly recently, people may conclude that those stocks *always* have negative returns, even if the dip is an anomaly. You can avoid this mistake by doing your best to consider the entire universe of information at your fingertips, not just what happened yesterday.

Following the Herd — While following trends might be fine for fashionistas, it's not always a smart investing move. Yet herd investing is an all-too-easy trap to fall into. If everyone is telling you that now's the time to get into a certain hot investment, you may feel you need to act fast so you don't miss out. But just because something is popular doesn't make it a good investment. Blindly following the herd without first consulting your own financial goals and plan doesn't make you a smart investor.

Overconfidence — Most of us like to think we're smarter than the average person. If you hit it big with a certain investment, you may overattribute that success to your skill rather than what it really is — luck. That can cause you to repeat the same behavior.

Panic — Investing isn't for the faint of heart. When the market takes a sudden dip, it's easy to panic, which can lead you to make bad decisions, such as selling at a big loss, rather than riding out the natural hills and valleys of investing. Making these emotionally-driven choices costs you a lot of money. When making investing decisions, make sure they're based on evidence, not your initial gut reaction to the day's events.

Avoiding psychological investing traps on your own can be difficult. Please call if you'd like to discuss this in more detail.

Your Risk Tolerance and Retirement

To gain a better understanding of how we're affected by risk when building a retirement portfolio, it's important to learn about risk tolerance and what it means for you as an investor.

What Is Risk Tolerance?

Risk tolerance essentially refers to an investor's ability — both emotionally and financially — to deal with major upswings and downswings in the market. If a person is said to have high risk tolerance, he or she likely tends not to worry so much about the potential risk of certain stocks or having a large amount of stocks in a portfolio. Those with low risk tolerance are on the other end of spectrum, often too cautious to deal with volatile stocks or the market in general.

Risk Tolerance and Age

While plenty of factors must be taken into consideration when considering your own risk tolerance, age is one that can be seen as an important anchor to help risk-takers avoid getting in over their heads. This is especially true of those who are working toward building an effective retirement plan. When people are young, it makes more sense to take risks with investments than when they reach retirement age.

What's important to recognize is that risk tolerance *must* shift with age to avoid making costly mistakes at a time when it may be potentially too late to recover.

Adjusting Risk Tolerance

It may seem as if adjusting risk tolerance is challenging, but often it simply means taking a realistic approach to your investments. If you're nearing 60, for example, it's generally considered unwise for your portfolio to be comprised of 70% stocks — the number should be closer to 40%. Many successful investors find moving away from stocks to bonds is an effective later-in-life strategy.

The Importance of Working with a Financial Planner

The best way to get a better sense of what is a realistic risk tolerance for you at this point in life is to work closely with your financial planner. Please call if you'd like to discuss this in more detail.

Business Data

Indicator	Month-end Dec-19	Jan-20	Feb-20	Dec-18	Feb-19
Prime rate	4.75	4.75	4.75	5.50	5.50
3-month T-bill yield	1.52	1.53	1.51	2.47	2.41
10-year T-note yield	1.92	1.51	1.13	2.89	2.66
20-year T-bond yield	2.25	1.83	1.46	3.03	2.86
Dow Jones Corp.	2.84	2.59	2.52	4.40	4.08
GDP (adj. annual rate)#	+2.00	+2.10	+2.10	+1.10	+1.10

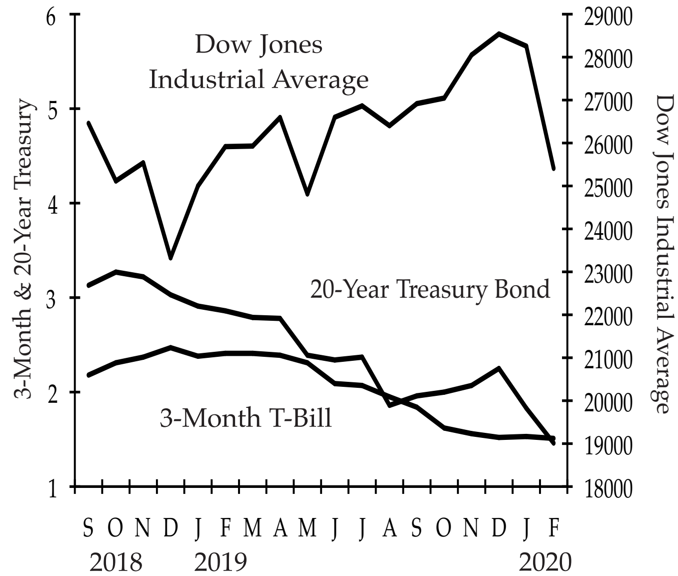
Indicator	Month-end Dec-19	Jan-20	Feb-20	% Change YTD	12 Mon
Dow Jones Industrials	28538.44	28256.03	25409.36	-11.0%	-2.0%
Standard & Poor's 500	3230.78	3225.52	2954.22	-8.6%	6.1%
Nasdaq Composite	8972.60	9150.94	8567.37	-4.5%	13.7%
Gold	1523.00	1584.20	1609.85	5.7%	22.0%
Unemployment rate@	3.50	3.50	3.60	2.9%	-10.0%
Consumer price index@	257.21	256.97	257.97	0.3%	2.5%

— 2nd, 3rd, 4th quarter @ — Nov, Dec, Jan Sources: *Barron's, Wall Street Journal*

Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

September 2018 to February 2020



News and Announcements

Market Timing vs. Buy and Hold

Market timing involves making market buy and sell decisions based on your prediction of the future performance of the market. A buy-and-hold investment strategy, in contrast, involves buying in to the market on a regular basis and holding your investments over time.

Why Market Timing Is Difficult

The fact is that the market is an incredibly complex system. Investment returns depend on a wide range of factors. Economists suggest that stock price changes exhibit what they call random walk behavior, meaning that future performance cannot be predicted based on past performance.

Market timers retort that they have built complex models that analyze all factors affecting a stock's price. Sometimes, these models do accurately predict the movement of a stock price. But too often, unforeseen factors can quickly send a stock's price up or down.

Also, market timing is a more time intensive strategy. You need to monitor your investments closely to stay on top of all the factors that can affect them.

Buy and Hold

For the average investor, a buy-and-hold strategy is much more practical. While buy-and-hold investors will suffer in market downturns, by staying invested in the market, their investments will recover when the market recovers. While there is no guarantee this will happen, historically, the general direction of the market has been upward. The benefits of a buy-and-hold strategy over a market timing strategy include:

- It doesn't require constant monitoring of the market or the news.
- It's less complex. You'll typically make far fewer trades with a buy-and-hold strategy.
- There are fewer tax consequences. Since you have fewer trades, you'll have fewer taxable transactions.

If you'd like to discuss a buy-and-hold strategy in more detail, please call. FR2019-1107-0230