

Improve Your Chances in the Market

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Last month's article was all about the role that emotions play in investment decisions. Because I believe every problem has a solution, this month our tips have ideas to help you make rational investment decisions.

- 1. Learn some basic information about money and investing** Don't assume the fees you pay an advisor can replace your personal interest in saving for your family's future. *You* are responsible for the choices they make on your behalf as long as your advisor is acting within the law. The law, however, gives advisors an awful lot of leeway when it comes to handling your money. If you **do** use an advisor, find someone who will take the time to explain his/her choices and will do so in language that makes sense to you. Ask him/her questions about how to learn more. If your advisor is "too busy", maybe it's time to look for someone who will take a serious interest in you.

We give these books for clients who want to learn more and recommend them to everyone else:

- [Seven Paths to Poverty](#) is a short read that will change the way you think about money.
 - [Your Money: The Missing Manual](#) is crammed with practical advice from J. D. Roth, a young man who found himself in debt, turned his life around, and started an award-winning money blog.
 - The boldly-named [I Will Teach You to Be Rich](#) is a six-week program especially written for [Generations Y and Z](#) who don't "spend consciously"; I consider it a good read for any age.
- 2. Find a way to save that works for you to invest and follow it religiously** There are many ways to add to savings – the trick is to find what works for you and follow the plan. Try to not view extra money as a standard-of-living boost, but as an opportunity to retire sooner. For example:
 - Shift any raises at work to go into your 401(k)
 - Same for any bonuses you receive
 - If your savings method is a large tax refund, use that for your annual IRA contribution
 - Use the "envelope method" (spending cash whenever possible) and add the savings to your IRAs
 - Treat your IRA as a monthly bill and auto-draft money into it each month, the same as you do for utilities and mortgage payments.
 - Finally, don't look at tax-deferred accounts as the only way to save. After-tax accounts can be a great way to build up equity that is not encumbered by the rules of retirement accounts.
 - 3. Review your portfolio periodically** The key is to define "periodically". At Milestones, we go over client portfolios monthly to see if any funds have moved from our "star" list and need to be put on the "watch" list. Looking at accounts more often tempts emotions; for example, when the market is 'hot', it's fun to watch your stocks go up. But, when the market takes a steep downturn, investors tend to turn off the computer, leave statements unopened, and worry, worry, worry. That's not how periodic works. I think personal investors should take a brief inventory of their accounts at least quarterly and maybe have a short discussion with their advisor, if applicable. Annually, take a good, hard look at your holdings and performance and be ready to make some tough, *unemotional* decisions. What about "buy and hold"? It works only when you hold **intentionally** and when you are holding **quality**. There are a lot of dogs that need good homes! Make sure your portfolio is not one of them.
 - 4. Don't let the tax tail wag the dog** I realize this is blasphemy to some in either of my professions, but consider whether it will be worthwhile to pay some taxes now if you need to move your money to an investment that is more appropriate for the long term. Keep in mind that dividends are not the only yield from investments – you also want them to rise in value (municipal bonds come to mind). Naturally, this topic should be discussed with your tax and investment advisors.
 - 5. Diversify your portfolio** It's impossible to know how many fortunes have been lost due to lack of diversification, but I'm sure the amount is in the billions. Owning several *quality no-load* funds in various sectors

is, in my opinion, a safer way to diversify than trying to choose one stock per sector that you (or your advisor) hope will perform to expectations. Consider these points when diversifying:

- Are you putting all of your time, talents, and money into the business you own at the expense of your 401k? You may not be adequately diversified.
- Have you considered asset correlation? Correlation values range from -1.00 to 1.00. A value of 1 is perfect correlation, and a value of -1 is negative correlation. In other words, the farther from a +1 correlation two investments are, the more diversification you'll realize by holding those two investments. You can learn more on [correlation coefficients](http://genxfinance.com/how-correlation-between-asset-classes-affects-your-portfolio/) by going to <http://genxfinance.com/how-correlation-between-asset-classes-affects-your-portfolio/>.
- How much are you investing into your employer's stock and what is safe for you? Investors weren't the only losers when Enron went belly-up. Many Enron employees had been encouraged to put everything into the company's stock and lost it all – along with their jobs.

If personal investing is outside your comfort level, consider hiring a qualified professional financial advisor who is experienced in putting together appropriate portfolios and will provide a buffer between you and your emotions. A [Fee-Only Certified Financial Planner™](#) is trained to look beyond “product pushing” to prepare a holistic plan to help you reach your goals.