AN INSIDE LOOK AT INVESTING

FOR SUCCESSFUL INDIVIDUALS

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Beyond striving to reach financial goals, we all want the balance to enjoy our daily lives.

This e-book aims to provide insight to professional investment management techniques. The goal is to provide some peace of mind about your financial behaviors and heightened confidence that your efforts are going in the right direction.

Investment Management Should Be Personal

Financial Planning benefits are sometime subtle and cumulatively make significant differences over time. Being disciplined is easier when the rewards are reaching **your** goals. Investment risks are moderated by time and your investments should match your timeframes.

Successful individuals benefit from a relationship with an investment advisor.

Peter Lynch, the famous Fidelity® fund manager liked to say, *"Most people spend more time planning vacations than they do on their retirement."* Many Americans start researching their own investment decisions and with good reasons fall out of practice. Families and careers grow and demand more energy. As portfolios increase it becomes a daunting task. Many Gen Y professionals have built significant savings and are unsure how best to go about investing it.

The right advisor provides great value.

We hope this brief treatise is worthwhile and helps you evaluate your best path forward.

For more information, schedule an appointment.
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01 WHY YOU HAVE TO GROW YOUR MONEY

Everything gets continuously more expensive and we're living longer.

Almost all of us want to retire and are unsure how much is needed. Beyond fighting inflation, with increasing longevity comes increased healthcare expenses, too. We all desire financial freedom and the peace of mind that can come from not having to worry about money. Statistically, one spouse in a 65-year-old couple will live to 95, so even at age 70 you must have growth investments.

Long-term investments can reasonably be expected to generate desired returns, as our markets have gone up over almost every rolling 10-year period.

But not all individual investors are successful, as some buy at the wrong time, or not stick with their strategy and stay invested. Less experienced investors tend to get in after they've seen a multi-year market increase and sell to their disadvantage out of fear when markets are low. Some have the "burn me once" mentality and see their purchasing power dwindle as money is left in safe bank accounts with no growth.

There is a smarter way to allocate investments that provides the peace of mind to get in and stay in.

As you read on, we explain how to minimize the short-term risk that make taking distributions uncomfortable, and protect market investments with the appropriate timeframe to realize your goals and let you ride out downturns.

02 STRATEGIC INVESTING

The biggest impact on returns is your allocation.

It's not what you buy, or even when you buy that most determines performance, but your ratio of stocks to bonds.[1] Stocks and real estate have consistently been the best long-term growth vehicles. Stock prices can move dramatically, which provides appreciation but also very random short-term outcomes. The lower the percentage of stocks in your portfolio, the less volatility (bouncing) you'll experience but your returns are likely to be dampened as well. It's a fallacy that your percentage of bonds to cash should match your age. It should be a function of how many years to specific investment goals, your emotional ability to withstand down markets and your level of wealth. The simple truth is, when your assets exceed your needs, you can afford to take more risk without restricting your spending.

Once you've determined your allocation to stocks, you have several choices to make.

Do you want to pick individual names or use broad mutual funds? With funds, you can hold hundreds of stocks with one investment which lowers your risk to specific companies. Do you want to include riskier small cap stocks, which provide better returns over time but have even greater volatility? What about international stocks? Do you want to take concentrated exposure to specific industries, like technology or healthcare? (See *Tactical Investing* to understand the benefits of aligning investments to current opportunities.)

For bond exposure, you almost always want to use mutual funds.

Each bond issue has unique risks of the issuer, interest rate changes, maturity, trading volume and call features. Leave these concerns to professionals and start with broad categories, like government or intermediate bond funds.

Another important dimension of strategic investing is rebalancing.

This can be done once or several times annually, or more effectively when your portfolio has moved significantly from your target allocation. Acting action based on the calendar will not be as beneficial as responding to market dynamics.

There are "One Fund" solutions for beginning investors.

There are Allocation Funds (i.e. *Conservative, Moderate or Growth*) that maintain a target allocation. If you participate in your employer's retirement plan, you probably have Target Date Funds offered. The latter are typically dated every five years and you're encouraged to pick the one closest to your expected retirement. They become increasingly conservative as that date approaches. These are fine when you're getting started but as you still need growth at age 70, you don't want all your investments too conservative at retirement.

1 The True Impact of Asset Allocation on Returns, (p. 6) Roger Ibbotson, http://www.retailinvestor.org/pdf/AssetAllocation.pdf

03 ACTIVE VS. PASSIVE MANAGEMENT

The most well-known example of passive investing is index funds.

Index Funds have become very popular, partially since being touted as a low-cost solution. Take the S&P 500 Index® (or S&P 500) as an example, which is rebalanced periodically according to a formula. Merits of "indexing" include the ability to own a broad swath of stocks (or bonds) or adding exposure to a specific economic sector at a very low relative cost.

Index funds have limiting characteristics that you want to understand.

The *S&P 500®* is a "market cap" weighted index, which means the largest companies have the greatest percentage. In May 2020, Microsoft and Apple were 10% of the index and the top ten names represented 25%. Also, every *S&P 500®* index fund buys or sells on the day when the index is recalibrated, which creates pricing pressures. This is a great option for beginning investors as the *S&P 500®* goes up about 70% of the time. It can also drop 30% in a year, so ideally we invest with the intention of holding this investment for at least 10 years.

Active investing engages research to discern the best names to trade and when to do so.

They apply both fundamental and technical analysis to these decisions. Fundamental criteria include financial statements, competition, management and external forces including societal, economic and government progressions. Technical analysts review charts and trading patterns to determine attractive entry points and exit targets.

In times of market volatility, a majority of actively managed funds outperform their benchmarks.

Index funds do not consider economic or industry momentum. Managed funds may also have secondary objectives such as tax efficiency or ESG considerations (Environmental, Societal and Governance responsibility) which are gaining in popularity. Active management is also important for international funds as most formulas seek proportional industry exposure weighted to the size of international markets. For example, Japan has a large stock market that has languished for decades, so it's a factor of international index funds that you want to avoid.

2 Top 10 S&P 500 Stocks by Index Weight, https://www.investopedia.com/top-10-s-and-p-500-stocks-by-index-weight-4843111

04 TACTICAL INVESTING

Many investment companies stop at Strategic Investing.
If you've ever answered a dozen questions to determine how to invest your money (ranking your job stability, savings, age, and appetite for stock volatility) you took a *Risk Profile Questionnaire*. Many firms use these, then place your money into a *Target Portfolio* based on how you score. Investments are typically spread across all industries and asset classes to match broad indices. When markets move, they rebalance to keep your account in line with the target, which means selling stocks as markets rise or buying stocks as markets fall.

Strategic Investing doesn't include aligning investments to match your various goals.

Integras Partners takes this another step forward by utilizing multiple strategies for each client that are managed for graduating timeframes, keeping risk specific to when you want to capitalize on your plans.

You don't want to own all industries or asset classes all the time.

For instance, when facing a recession, you want to avoid lower quality (junk) bond debt. When coming out of a recession, you want to overweight small company funds, as they usually outperform the large cap funds early in a growth cycle. This is especially true for real estate as different sectors like apartments, office and retail perform differently in each phase of an economic cycle.

Tactical management gauges what sectors to overweight or underweight as markets move.

This can provide greater opportunity and protect principal in down markets. It would be tactical to sell bonds in a down market for needed income and extend the time horizon for the stocks to recover. There are also forces impacting individual companies or industries that may produce extraordinary opportunity or unexpected gains. **The discipline to take advantage of these opportunities and to harvest gains is often difficult for individual investors.**

Risks are magnified for clients taking periodic income in down markets.

Distributions from a *Target Portfolio* are often generated by proportionately selling funds across the board at lower prices. As stocks fall, this exerts more pressure on portfolios to generate the same income from less principal, which increase the risk of running out of money!

Many 401(k) Participants Take Unknown Risks by Choosing Target Date Funds

These funds (which have a year in their name) become increasingly conservative as that date approaches. So, most now hold 40% - 60% bonds. With historically low interest rates, these investors will likely be very disappointed in not meeting their financial goals as they approach retirement.

05 "DO IT YOURSELF" VS ENGAGING AN ADVISOR

Tactical investing is complex and requires experience and the discipline to act.

Until *The Great Recession of 2008,* stocks and bonds usually complemented each other, as bonds tend to appreciate with increased demand when stock markets were going down. In 2008, everything went down. The same thing happened when COVID-19 gripped the country and interest rates when down while stock markets tumbled. Mastering the skills to be successful in turbulent markets requires experience.

Advisors should add value through financial planning for your situation.

You probably have multiple goals such as retirement, educating children or grandchildren, charitable giving and owning a second home or business. **These goals have separate timelines and investments need management to improve certainty and stay aligned for planned withdrawals.** You should also benefit from tax efficiency and estate planning as your advisor partners with your attorney and tax advisor.

There are multiple reasons why successful individuals and families work with a financial advisor.

Importantly, they recognize they don't have the time or expertise. You hire experienced professionals as dentists and plumbers, so why should a millionaire want to be a do-it-yourself investor? Even if they have the expertise, wealthy people usually don't have the time to stay abreast of economic data, continuously research investments and rebalance their portfolios. Also, professionals have the discipline to make trading decisions with less emotion.

Building a portfolio of individual stocks is not for amateurs.

Determining the best industry exposures, then picking the best names to complement each other is a daunting task. There can be benefits to owning individual stocks including finding relative bargains, picking successful companies and better controlling your taxes. This is also where emotions can get the better of individual investors.

Advisors also offer access to investments not available to individuals.

Mutual fund companies offer "institutional" share classes through advisors that have lower expense ratios because the fund is not issuing statements and tax documents or providing customer service. Working with a Registered Investment Advisor (RIA) like **Integras Partners,** makes direct investments in real estate, private equity or private debt available to high net worth clients. Again, at no commission because you're going through an RIA .

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