Long-Term Investment Truths

Key lessons for retirement savers.

Provided by Resonate, Inc.

You learn lessons as you invest in pursuit of long-run goals. Some of these lessons are conveyed and reinforced when you begin saving for retirement, and others you glean along the way.

First & foremost, you learn to shut out much of the "noise." News outlets take the temperature of global markets five days a week (and even on the weekends), and fundamental indicators serve as barometers of the economy each month. The longer you invest, the more you learn to ride through the turbulence caused by all the breaking news alerts and short-term statistical variations. While the day trader may sell or buy in reaction to immediate economic or market news, the buy-and-hold investor may wait for selloffs, corrections and bear markets to pass.

You learn how much volatility you can stomach. Volatility (also known as market risk) is measured by standard deviation. Standard deviation is a measure that is used to quantify the amount of variation or dispersion of a set of data values. We invite you to have a conversation with us to examine your risk tolerance level.

You learn why liquidity matters. The older you get, the more you appreciate being able to quickly access your money. A family emergency might require you to tap into your investment accounts. An early retirement might prompt you to withdraw from retirement funds sooner than you anticipate. If you have a fair amount of your savings in illiquid investments, you have a problem – those dollars are "locked up" and you cannot access those assets in a quick manner and there is a possibility that you will have to pay penalties. In a similar vein, there are some investments that are harder to sell than others.

Should you misgauge your need for liquidity, you can end up selling at the wrong time as a consequence. It hurts to let go of an investment when the expected gain is high and the Price-Earnings Ratio (P/E Ratio) is low. P/E Ratio is calculated as: Market Value per Share / Earnings per Share (EPS) For example, if a company is currently trading at $43 a share and earnings over the last 12 months were $1.95 per share, the P/E Ratio for the stock would be 22.05 ($43/$1.95).

You learn the merits of rebalancing your portfolio. To the neophyte investor, rebalancing when the market is hot may seem illogical. If your portfolio is disproportionately weighted in equities, is that a problem? It could be.

Across a sustained bull market, it is common to see your level of risk rise parallel to your return. When equities return more than other asset classes, they end up representing an increasingly large percentage of your portfolio's total assets. Correspondingly, your cash allocation shrinks as well.

The closer you get to retirement, the less risk you will likely want to assume. Even if you are strongly committed to growth investing, approaching retirement while taking on more risk than you feel comfortable with may be problematic, as is approaching retirement with an inadequate cash position. Rebalancing a portfolio restores the original asset allocation, realigning it with your long-term risk tolerance and investment strategy. It may seem counterproductive to sell “winners” and buy “losers” as an effect of rebalancing, but as you do so, remember that you may be potentially saying goodbye to some assets that may have peaked while saying hello to others that you may be buying at the right time.

You learn not to get too attached to certain types of investments. Sometimes an investor will succumb to familiarity bias, which is the rejection of diversification for familiar investments. Why does he or she have 13% of the portfolio invested in just a few stocks. The investor just likes what those firms stand for, or has worked for them. The potential inherent problem is that the performance of those companies may exert a measurable influence on the overall portfolio performance.

Sometimes you see people invest heavily in sectors that include their own industry or career field. An investor works for an oil company, so he or she gets heavily into the energy sector. When energy companies go through a rough patch, that investor’s portfolio may be in for a rough ride. Correspondingly, that investor has less capacity to tolerate stock market risk than a faculty surgeon at a university hospital, a federal prosecutor, or someone else whose career field or industry will be less buffeted by the winds of economic change.

You learn to be patient. Even if you prefer a tactical asset allocation strategy over the standard buy-and-hold approach, time teaches you how quickly the markets rebound from downturns and why you may want to stay invested even through systemic shocks. The pursuit of your long-term financial objectives should not falter – your future and your quality of life may depend on realizing them.

For answers and help with your financial planning, contact Resonate at (513) 605-2500 or online at www.resonatecompanies.com

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