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Stock Investing Mistakes to Avoid

Following are some common investing mistakes to learn about now, so that you don't have to learn the hard way:

Not Having a Plan — Every investor needs a well-established plan. Your plan should include:

- ✔ **Goals and objectives** — You want to be as specific as possible with your goals so that you will be able to measure if you are on track to meet them. Saving for retirement or an education are goals that are too vague.
- ✔ **Risk tolerance** — If you are an investor who can't stomach the ups and downs of the market, you will probably be better off investing in blue chip stocks. Also, think about other risks that will impact your portfolio.
- ✔ **Benchmarks** — Determine what benchmarks you will use to measure the success of your portfolio.
- ✔ **Asset Allocation** — Decide how you will allocate your stock investments across various industries, company sizes, etc.
- ✔ **Diversification** — Allocating your assets among asset classes is the first step of diversification. You will also want to determine how you will diversify within each asset class.

Not Doing Your Homework — When you are planning to invest in a company, you'll want to have a thorough understanding of the company and its products. Read the company's annual report to review its performance and its business plans. While not an exciting read, a prospectus of the investment offering will provide valuable information. Also, spend time on the company's website, read press releases, and look for articles.

A Time Frame That Is Too Short — If you begin investing for specific goals with a short time frame, then your asset allocation will need to reflect that. If you begin saving for your daughter's education when she's in the sixth grade, you'll only have about six years to fund her education, and your investments will need to align with that time frame. The bottom line is that you need to begin investing as soon as possible so that you have reasonable time frames to meet your goals.

Too Much Noise — There is no

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Frankly Speaking

The more things change…The more they stay the same.

In 1983 gas cost $.96 a gal., Michael Jackson's 'Thriller' premiered. It was the last time Social Security gave a cost-of-living increase steeper than the one just announced for 2022. This year, benefits will rise 5.9%, the sharpest upsurge since 1983's 7.4%.

Cost-of-living increases are tied to the CPI. Rising inflation rates and gas prices caused by the pandemic mean Social Security recipients will get a large boost next year. However, healthcare costs have been rising faster than federal cost-of-living adjustments for a long time. By one estimate, adjusted for what seniors spend money on, the purchasing power of Social Security income has declined by 30% since 2000.- The Motley Fool, September 26, 2021.

Do you know how much you will need to retire & stay retired comfortably for the rest of your life? If not, would you like me to sit with you and figure it out at no cost to you? ❍❍❍

Stock Investing

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shortage of financial news shows, pundits, and information, and it is wise to be well-informed. But don't let it take you off track from your investment plan. Use the information to learn about investing, various strategies, and companies that you are interested in investing in, but don't let it turn your plan upside down.

Not Rebalancing Your Portfolio — Rebalancing is the process of realigning the weighting of your portfolio to the original asset allocation that you defined in your plan. Rebalancing is not easy to do because it may force you to sell investments that are performing well and buy more investments that are not performing as well. If you allow your portfolio to coast along with market returns, you will at some point be overweighted at market peaks and underweighted during market lows. Rebalancing will help you reap the long-term gains you are looking for.

Investing Isn't Gambling — While some people may feel that way because there is no guarantee on return, investing is a discipline. If you are jumping on hot stock tips or just picking stocks without truly understanding the company, you are not investing, you are gambling. Investing is about making decisions based on an investment plan that addresses all of the important factors and sticking to it, then reviewing it appropriately on a regular basis.

Chasing Performance — There are investors who chase the next best thing, which can lead to bad investment decisions and sizable losses. Again, it is best to have an investment plan that you stick to and rebalance it when necessary.

Watch Out for Bargain Buys — Have you ever bought a piece of furniture or an article of clothing because it was a real bargain, only to have it fall apart a short time later? The same thing applies to stocks. Don't buy a stock just because it's cheap, because cheap doesn't necessarily mean it's a good investment. The key is finding good value. You want to purchase the best possible stock at the best possible price. A high-priced stock could provide more value than a low-priced stock in terms of the return it will bring in the long run.

Not Considering Taxes — You'll want to think about the tax consequences of your investments before investing. Take the time to figure out what your return will be after adjusting for taxes. You should consider investing a portion of your investments in tax-advantaged or tax-deferred instruments to help offset taxes on your taxable investments.

Please call if you'd like to discuss your investment portfolio in more detail.

Reevaluate Life Insurance at Retirement

As retirement age approaches, reassess your life insurance policies to see if your needs have changed. Before cancelling, however, make sure there aren't other uses for your life insurance policy, such as:

To leave a legacy to heirs — Even if the money isn't needed for your children's support after your death, many people like the thought of leaving a large inheritance to their children or grandchildren. With an insurance policy in place, you can feel free to spend your retirement assets, knowing the insurance policy proceeds will be paid to your beneficiaries after your death.

To pay your grandchildren's college expenses — With the rapidly increasing costs of college making it more and more difficult for parents to cover, you might want to use an insurance policy as a college fund for your grandchildren. If you're still alive when they start college, you might be able to borrow some of the cash surrender value to pay these costs.

To support adult children — There are a variety of reasons why you might want to provide financial help to an adult child. Perhaps your child is a doctor, but has significant debt from college. Or your child might work at a job that doesn't pay a significant amount of money.

To provide a large charitable contribution — A life insurance policy can serve a couple of purposes when making a large charitable contribution. You can name the charity as the beneficiary of the policy. Or you can leave other assets to the charity that would have been included in your estate and possibly subject to estate taxes. The proceeds of the life insurance policy, if properly structured, can then be paid to your heirs estate and income tax free.

To help deal with long-term-care costs — Many individuals don't purchase long-term-care insurance, believing their spouse will take care of them. However, when one spouse dies, there may not be anyone to take care of the surviving spouse. The proceeds of a life insurance policy can be used to provide long-term care for the surviving spouse.

To optimize pension benefits — When retiring, irrevocable decisions about pension plan benefit payments must typically be made. An individual life income option will pay higher benefits than a joint and survivor benefit, but then your spouse will not have pension benefits if you predecease him/her. You could use the proceeds from a life insurance policy as a source of income for your spouse after your death.

Retirement Withdrawal Rates

When planning for retirement, most people are focused on how much they need to save today. They tend to spend less time thinking about how they'll make their nest egg last once they stop working. After all, with total savings in the hundreds of thousands or even millions of dollars, it may seem that your money will last forever. Unfortunately, it's just not that simple.

Few people are wealthy enough that they don't need to worry about how much money they withdraw from their savings every year. Below, we cover some of the most important things you need to know about retirement withdrawal rates and how to make your savings last a lifetime.

The 4% Rule

To avoiding the danger of draining your savings, you need a plan. That means knowing how much you can withdraw from your portfolio every year.

This is called your retirement withdrawal rate. There's actually a pretty simple rule of thumb you can use to estimate how much you can safely take from your savings. It's called the 4% rule.

The 4% rule says that you can withdraw roughly 4% of your portfolio every year and have enough money to last for a 30-year retirement (assuming you are invested in a 60-40 mix of large-cap stocks and intermediate-term government bonds).

So, if you had a total retirement portfolio of $1 million, you could withdraw about $40,000 every year and probably have enough money to last until you turned 95.

Combined with Social Security and pension income, your 4% withdrawal rate could provide you with a respectable, though not necessarily lavish, income. If you wanted to enjoy an annual income in the six figures in retirement, you'd have to save quite a bit more.

Does the 4% Rule Matter?

There's a lot to be said for the 4% rule, but it's not the be all and end all of retirement planning. In fact, some retirement experts have said that today's retirees should forget about the 4% rule, or at least apply it with caution.

Low interest rates are one reason, because they mean that retirees aren't earning as much on their relatively safe investments (like government bonds) as they would if they'd retired a couple of decades ago (when the 4% rule was first proposed).

Another problem is what is called sequence of returns risk. Basically, the 4% rule assumes that you earn relatively stable average returns throughout your retirement. Unfortunately, that's not how the real world works. Returns fluctuate, sometimes wildly, from year to year. If you are unlucky enough to hit a bad patch in the early years of retirement, the value of your portfolio may fall, and you may never be able to make up the loss.

Finally, there is something called the sequence of consumption risk. The 4% guideline assumes that your spending is relatively steady throughout retirement. But recent studies indicate that's not the case for most retirees.

You're likely to spend more money in the early years of retirement (when you're still relatively young and active and eager to do all the things you couldn't do while working), less in the middle years of retirement, and more in the final years of your life (when healthcare costs often pile up). Spend too much in the early years and you could find yourself running out of money in the later years.

A Guideline, Not a Rule

Rather than treating a 4% retirement withdrawal rate as a hard-and-fast rule, it's better to think of it as a starting point. Thinking about living on 4% of your portfolio every year is a good way to get a rough idea of how far your retirement dollars will go. But by itself, it won't be enough.

To really determine how much you can withdraw from your savings every year, please call to discuss this in more detail. ❍❍❍

Stock Selection Tips

Consider the following tips when selecting stocks for your investment portfolio:

✔ Purchase stocks that fit your investment goals and criteria. A growth stock may be a good investment, but it doesn't belong in your portfolio if you have a low risk tolerance and are investing for income.

✔ Don't worry about the overall stock market and whether it is at a high or low level. Instead, concentrate on purchasing stocks for the long term at a fair price.

✔ Don't invest based solely on a stock tip. The tip may be valid, but you need to carefully research the company.

✔ Invest in stocks whose businesses you understand. Good candidates for investment include products, stores, or restaurants that impress you.

✔ Carefully research a company before investing in its stock. People spend weeks researching a new car, refrigerator, or house, but often spend little time reviewing investment options. Read the company's financial information.

✔ Don't rush into purchasing a stock. Good stocks can rise in value for years, so it shouldn't be necessary to buy one within a very tight timeframe.

✔ While diversification is an important portfolio strategy, only purchase as many stocks as you can reasonably monitor.

✔ Monitor your stocks after purchase. Read quarterly and annual reports to ensure the stocks remain good investments.

✔ Maintain realistic expectations. High expectations often result in frequent trading, as you continually look for investments to meet those expectations.

✔ Set target selling prices — both high and low — when you purchase a stock. You don't have to sell when the stock reaches those prices, but you should at least reconsider the investment.

✔ Analyze and learn from your mistakes. Understand why you lost money on a particular stock so you can try to prevent the same thing from happening in the future.

✔ Review all your stocks at least annually. Look at them as a whole to make sure they are still compatible with your overall investment objectives. ❍❍❍

Changing 401(k) Beneficiaries

When you sign up for your 401(k) plan, you will typically be asked to fill out a beneficiary designation form, listing who should receive your 401(k) plan assets when you die. Make these selections carefully, since they typically override any provisions in your will.

If you are married, federal law dictates that your spouse is automatically your 401(k) plan's beneficiary. Similarly, if you remarry and want to keep your children from a previous marriage as the beneficiaries, you must have your current spouse sign a waiver. You should not rely on a prenuptial agreement or other document.

When your beneficiaries are minor children, keep in mind that most 401(k) plans will not transfer money directly to minor children. Thus, you may want to set up a trust, so the trustee can take immediate control of the funds.

If you are single and don't name a beneficiary, the proceeds will go to your estate and be distributed with the rest of your assets.

Periodically review your beneficiaries to determine if changes are needed. A divorce, remarriage, spouse's death, or child's birth are all events that may require changes to beneficiaries. ❍❍❍

Financial Thoughts

Approximately 40% of the U.S. stock market is owned by foreigners, 30% by retirement accounts, 24% by taxable accounts, 5% by nonprofit organizations, and 1% by the government (Source: Tax Policy Center, 2021).

Automatically opting employees into their workplace retirement plans has a strong influence on participant saving and investment behavior. Researchers found that participation rates among new hires tripled to 91% under automatic enrollment, compared with 28% under voluntary enrollment. Ninety-two percent of participants in plans with automatic enrollment still participated after three years, versus 29% of participants under voluntary enrollment. Under automatic enrollment, participation rates rose the most among young and low-income workers. Employees earning less than $15,000 had a participation rate of 82% under automatic enrollment versus 4% under voluntary enrollment. And nine out of every 10 employees younger than 25 participate under automatic enrollment, versus less than two in 10 under voluntary enrollment (Source: Vanguard Research, February 2021). ❍❍❍