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SENIORS/BOOMERS NEWSLETTER

'the retirement experts'

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HAPPY , HEALTHY & PROSPEROUS 2015

The 12 (½) *MOST COMMON mistakes Investors make....and what not to do in 2015!*

As regular readers know, I like to start off every year with a set of reminders of the most common investing mistakes...so that you don't fall victim to their ploys. So without further ado, let's take the refresher for 2015.

Mistake No. 1: Procrastination.

Over your lifetime, waiting for the right time to get into the market can ruin your investments. The right time is NOW. Google- **'market timing'** -and you'll get over 22 million results. Aside from a few sites telling you "how to" do it (I call these snake oil salesmen) virtually all respectable sources will tell you it can't be done successfully over an extended period of time.

The irony is the longer you wait to begin investing, the less time you have to invest. Every day you delay is a day of opportunity lost that you can never get back again. The saddest thing I've seen and read about since the market bottomed in March of 2009, is that many people were so shaken by the losses in the market that they never got back in. They missed a 275% rise since the March 2009 closing of the Dow at 6443.

Mistake No. 2: No written plan.

If you don't know where you're going, any road will take you there! Different articles published in *Fortune* magazine, Money Magazine, MSN Money, Kiplinger's and others have stated that people with written financial plans end up with **two to five times** more money during retirement than those without written plans.

If you don't have an investment plan that's right for you, developing one should be a top priority in 2015. **DO YOU KNOW HOW MUCH MONEY YOU'LL NEED IN RETIREMENT????** It's probably more than you think. **DO YOU KNOW HOW MANY YEARS YOU'LL SPEND IN RETIREMENT?** It's probably more than you think.

Mistake No. 3: Taking too much risk.

Investment risk is not a theoretical concept. There is a very real possibility that you will lose money in the stock market. We've seen this three times since the turn of the century. Investing, by definition, requires taking some risk. There is a direct correlation between risk & reward. Some however, take on too much risk for their comfort level.

The right amount of risk will maximize your returns while still letting you sleep at night. Most investors don't understand what could go wrong with an investment when they make it… and they don't have a plan for what to do if things go badly. Having unrealistic expectations on how much an investment should appreciate will kill your portfolio. Most stocks don't make a major move of more than 20% in a short period of time. These are winners and, many times, should be cashed in…subject to rule **12 ½ .**

Mistake No. 4: Taking too little risk.

To contrast Mistake # 3, some people are paranoid about the thought of losing any money at all. They want everything, absolutely guaranteed. Very low risk however, almost always equates with low returns. If you put your emergency money in a bank account and earn 1, 1.25, or even 1.5 percent, you may think you're

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taking no risk. But in fact you are taking on the very real risk that **inflation** will rob your money of its purchasing power…not to mention the taxes you'll have to pay on the little interest you did earn.

Among the *'safest'* investments today, you will find government bonds paying you a lofty 2.2% for a 10 year loan, or 2.9% for a 30 year loan. However,when you factor in inflation, how much do you think you'll pay for a gallon of milk 10 or 30 years from now? Also, our modern day medical miracles means you're living longer: good news. The bad news: you're living longer and **that costs money.**

Mistake No. 5: Paying too much money to others.

Fees. Fees. And more fees. Some are overt. For example, mutual fund investors throw a lot of money away by buying front end load funds (paying as much as 5.75 %) instead of no-load funds or ETF's.

Some are covert. Like, the ongoing expenses these funds charge (usually in excess of 1% annually). Investment expenses take away a significant portion of an investor's annual returns in order to pay the fund managers and the sales commissions first. Be prudent about how you absorb fees. Typically, an Investment Advisor will save you a lot of money here. (There's my shameless plug for the year!).

Mistake No. 6: Trusting institutions.

This mistake is one of the least understood. Like, why shouldn't you trust your bank or brokerage firm? O.K. let's examine both and you decide how much you should trust their advice.

BANKS: A classic conflict of interest. Your best interests are served by accounts that pay you the highest interest rates. Your bank's best interests are served by accounts that pay you little or no interest at all, like passbook savings and checking accounts. Does your bank tell you to move your money somewhere else within the bank to get a higher return? Not usually! Does your bank push you into unsuitable annuities or mutual funds where they may have sales agreements paying them a lot of money???

BROKERAGE HOUSES: They also have a conflict of interest with their investors. Their first responsibility as a public company is to their shareholders…not their clients. Don't be lulled into thinking that they have your best interests at heart. The advisor might…the brokerage house, maybe not. And, guess who the broker works for and gets paid by? Who do you think the broker thanks for his 2014 Wall Street bonus?

Mistake No. 7: Believing publications & TV.

"Best Funds for Next Year and Beyond"
"The 100 Best Mutual Funds"
"These Stocks are Real Steals"
"Star Funds: Six Standouts You've Never Heard of"

Those are all real headlines from the covers of popular personal finance magazines. Study after study shows that the majority of stocks and funds touted in such articles fail to do as well as the average of other stocks and funds in their class.

Don't get sucked in! The investments being touted here were perhaps, last years' winners. This does not mean that they'll repeat this year. DO NOT chase performance.

Mistake No. 8: Failing to take little steps that can sometimes make a big difference.

Some examples:

- People fail to fund their IRA contributions by April 15th .
- People leave money in taxable accounts when it could more appropriately go into IRAs, Roth's, 401(k) plans and annuities where they will save taxes by having their money grow tax deferred.
- Some employees don't maximize their 401(k) plan savings.
- Others may not maximize their employer contributions in their 401(k) plan savings by simply putting in matching dollars. This is free money.
- Investors have multiple small IRA accounts, paying an annual fee for each one instead of consolidating them into an account large enough to avoid a fee in the first place.
- People don't move their money from a checking account to a money-market deposit account at their bank. Or, they don't move their money from their bank's money-market deposit account to a non-bank money-market fund.

Each of these little steps makes a difference. And over a lifetime these little differences add up to one big difference.

Mistake No. 9: Accepting investment advice and referrals from amateurs.

If you had a serious illness, you'd consult a doctor, not a friend or relative who had an opinion about what you should do. You should treat your life savings and your financial future with the same care as you would treat your health.

Too many people, however, make big financial decisions based on things they hear. The lure of the hot tip is all but irresistible to some investors eager to find a shortcut to wealth. Unfortunately, many investors have to learn the hard way that there are no safe shortcuts. Also, as I always mention at my seminars, "if it sounds too good to be true, it usually is".

Mistake No. 10: Letting emotions – especially greed and fear – drive investment decisions.

The two most powerful forces driving Wall Street trends are greed and fear. There's fear of rising interest rates, fear of inflation, fear of falling profits. Fear is why so many investors bail out of carefully planned investments when things look bleak – and since everybody seems to be selling at the same time… prices DO go down. That, in turn, reduces profits or increases your losses.

Greed blinds investors, making them forget what they ought to know. As I said earlier, if it sounds too good to be true, it probably **is too good to be true.** Too often, greed prompts many inexperienced investors – and some experienced ones too – to stuff their portfolios with aggressive assets that frequently lose them money.

There's another axiom in the investment business which has to do with trying to buy at the bottom or sell at the top. I call this the 20/60/20 rule. Those in the bottom 20% are trying to buy at the bottom and usually miss fantastic opportunities because the stock turned around and started heading north, and never came back their way again. They miss.

Same thing goes for those trying to get out at the top. The stock makes a 'high' then retreats (maybe forever). They miss too. If you're satisfied in the 60% range you'll beat the other two types…hands down.

Mistake No. 11: Focusing on the wrong things.

It's generally agreed that asset allocation – the choice of which assets you invest in – accounts for over 90 percent of investment returns. That leaves less than 10 percent of your gains being attributed to choosing the best stocks and the best mutual funds and timing the market (which you cannot do).

Most investors however, do things in reverse. They focus 90 percent of their attention on choosing funds and stocks and only 10% thinking about how to invest their money properly. This action greatly diminishes returns! And, once you do have proper asset allocation, remember that it applies only for today. Re-balancing is how you keep it *re-balanced.*

Mistake No. 12: Not understanding how investing works.

Diversification…diversification…diversification
(putting together non-correlated asset classes).

The entire point of diversification is to always have some things in a portfolio that don't work the same way as the others. This year's asset class winners may be next year's asset class losers.

Another mistake: investors may put too much of their money into a single stock or mutual fund. Frequently, an investor's emotional attachment to one type of security takes on a life of its own. Then when their favored investment starts falling behind, the investor's confidence (stubbornness) persists. By the time the investor is finally willing to admit that things have changed, he or she has probably stayed way too long and lost way too much money.

Mistake No. 12 ½: Not using trailing stop-losses.

Trailing stop losses do 3 things for you:

1. They let you ride your winners up.
2. They get you out of a trade before you either lose your profits or lose more than you intended.
3. They give your investing discipline and take emotion out of your trading.

When I woke up this morning my wife asked me, 'did you sleep good' I said 'no, I made a few mistakes'..........Steven Wright

In an effort to help you protect your investments (and avoid further mistakes), I'm including excerpts from a recent seminar I gave which explains:

>What to Buy
>How to Buy
>When to Sell
>Minimizing losses/Protecting profits

WHAT TO BUY

Buy inexpensive stocks – DO NOT OVERPAY.

Maintain an asset-allocated diverse portfolio.

Stocks

Large cap)
Mid cap)emphasis on dividends
Small cap)
International
ETF's
REIT's
Metals

Fixed Income/Bonds

Preferred shares
Corporate bonds
International/Emerging market bonds
Treasuries
Munis

Cash

HOW TO BUY

Price/Earnings (the lower the less expensive)
$10 stock with $1 earnings = P/E 10

Price/Earnings Growth
PEG>1 overvalued; PEG=1 fair value; PEG<1 = best

Free Cash Flow
The excess cash after paying all paying bills and taxes

Book Value
Total assets minus total liabilities

Price/Book
Company stock value divided by its book value

Earnings Yield
Company earning $2 and trading at $10 = 20% EY

Return on Invested Capital
$10000 invested capital for a business that returns $1000 on that additional capital = 10%ROIC
$10000 invested capital for a business that returns $3000 on that additional capital = 30% ROIC,,,,,etc.

WHEN TO SELL

You sell when the reason you bought the stock no longer exists.

Sell when your stock is fully valued and has little further upside potential.

It's a great time to sell when you have found something better to invest in.

Finally, sell a stock that has lost the maximum amount you were prepared to lose...Stop-Loss.

MINIMIZING LOSSES/PROTECTING PROFITS
(A.K.A. Trailing Stop Losses)

Trailing simply means the % you set follows the stock price down AND up.

IT IS HOW YOU MINIMIZE YOUR LOSS

IT IS HOW YOU PROTECT YOUR PROFITS

IT IS HOW YOU MAXIMIZE YOUR PROFITS

EXAMPLE:You buy a stock at $25 and set your trailing stop loss at 25%
The stock goes down to $18.75...YOU SELL.
The stock goes up to $50, then retreats 25% down to $37.50...YOU SELL.
The $50 stock falls to $40, but you hold on.
The stock continues to rise to $100, then retreats 25% - down to $75...YOU SELL.

GOOD LUCK IN 2015!!!

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