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9 INVESTMENT PITFALLS

TIPS FOR GUIDING HIGH-NET-WORTH INVESTORS

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The decade between 2009 to 2019 marked a ten-year market bull run.[1] What felt like an endlessly growing economy gave investors confidence and assurances that markets aren't designed to provide. A global pandemic brought on a rude awakening in 2020. Historically speaking, 2020 was a relatively stable year despite the pandemic. It did, however, serve as a wake-up call to investors everywhere, reminding them that markets are inherently uncertain.

Experience has taught us that successful investing requires discipline and patience. A long-term investment focus can help when emotions run high, whether fear or greed drives the markets. While balancing ongoing changes can seem daunting, a steady course can help buffer you against turbulence and uncertainty and ensure that your timeline and goals are uninterrupted.

To help you overcome these challenges, we've compiled a list of common mistakes and guidelines.

"ACCURATELY CHASING THE MARKET'S TOP AND BOTTOM IS VIRTUALLY IMPOSSIBLE"

MISTAKE #1: BELIEVING INVESTING IS A SMOOTH RIDE

It's easy to get comfortable after a decade of strong market returns, but it behooves investors to remember that even when performance is strong, nothing lasts forever. The 1990's dot-com bubble, the Great Recession of the 2000s, and the 2020 COVID-19 pandemic all remind us that, eventually, high markets will fall. That's not to say that investors can't find opportunities to grow their money in a choppy market, but 2020 reminded investors that relying on a steady market is inadvisable.

To help you stay ahead of market developments, preparing for declines is essential. The desire to pull out of the markets when they tumble can trump long-term goals. Instead of retreating during turbulence, you may need to adjust your investment mix. By remaining flexible, you can take advantage of opportunities to act on underpriced assets, manage risk, and increase return potential.

Active portfolio management enables you to make these types of investment moves. But before you act, a good first step is to create the strategies that will guide your investment decisions. Retreating and starting over each time can make it difficult to catch up.

MISTAKE #2: TRYING TO TIME THE MARKET

When markets rally or pull back, it can be tempting to seek out opportunities to sell-high and buy-low. The problem, however, is that investors usually guess wrong. While past performance doesn't guarantee future results, historically speaking, very good days and very bad days tend to cluster.[2] Therefore, if you exit the market when the going gets tough, you're likely going to miss the rally that often follows. For example: If you'd invested $100,000 in the S&P 500 index in March 2010 and stayed fully invested for ten years (March 2020), your investment would have resulted in gains of $172,102. Missing only the ten best days over this decade would have resulted in a profit of only $53,335— a daunting $118,887 difference.[2]

This doesn't only apply in a bull market. Between 1986 and 2005, the S&P 500's* annual compound rate was 11.9%—even while weathering Black Monday, the dot-com pop, 9/11, among other panics. Over that period, $10,000 would have grown to more than $94,000 (excluding investment fees and expenses).[3] The average investor's return during that period, however, was just 3.9%, meaning that same $10,000 grew to slightly more than $21,000.[4]

Was saw this panic-driven investing yet again during the COVID-19 pandemic. In early March of 2020, the initial weeks of the outbreak, pundits predicted a market crash as unemployment was sure to soar and small businesses were predicted to close their doors at historically high rates. Over the subsequent months, many of these grim predictions came to fruition, but the S&P rapidly recovered— even thrived. Investors who exited the market waiting for a crash would have missed out on steady gains post-recovery. Many investors waited for "the inevitable reckoning" only to find that by July of 2020, the market recovered to pre-COVID heights.[1]

The bottom line? Accurately chasing the market's top and bottom is virtually impossible. No one can do it consistently. A better approach may be on small adjustments to help you stay the course.

** The S&P 500 is an unmanaged index that cannot be invested into directly. Past performance is no guarantee of future results.*

MISTAKE #3: TAKING TOO MUCH RISK

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Not timing the markets is one thing. Another mistake is having too much risk in your portfolio. Risk involves the chance that the investment you choose will perform differently than you anticipate.[5]

During the bull market days of the mid-1990s and early 2000s, money poured into equities—often into risky tech and Internet stocks.[6] The value stocks trading low had many of their investors fleeing toward higher returns.[7] When a bear market followed 9/11, the bottom fell out of the tech sector; meanwhile, many value stocks weathered the storm.[8] A similar frenzy followed the pandemic as investors attempted to predict the effects of the lockdowns on certain stocks. Investors poured money into stocks that they expected to make a full recovery.[9] For many, these predictions didn't pan out. Investors taking on too much risk—not wanting to miss out on the boom—often see their portfolios take a severe beating.

Portfolio risk can be insidious. Holding a diverse mix of stocks, bonds, and alternatives may seem adequate for managing risk, but it's just one component. If you correlate these investments—meaning they move in similar patterns—then you could jeopardize your portfolio. If all the investments respond to market declines in the same way, you may increase the risk of losing all your money.

The objective is to take on the amount of risk that still aligns you with your long-term goals. When evaluating your portfolio, ask yourself these questions:

- Are you too heavily invested in one asset class, sector, or geographical region?
- Do you hold too many alternative investments?
- Do you hold many of the same investments or overlap too much?
- Is your portfolio correctly structured for your long-term goals, investment horizon, and risk aversion?

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MISTAKE #4: TAKING TOO LITTLE RISK

Playing the market cautiously and taking on too little risk may also negatively affect your portfolio. While minimal risk can feel like a safe move, you could miss important market rallies.

During periods of market turbulence, many investors tend to flock to low-risk investments like U.S. Treasuries and cash.[10] This aversion to risk can affect long-term investments as too many fixed-rate investments put a cap on your portfolio's profitability.[11] Inflation is a serious concern in long-term investing as too little growth in your investments can leave you with a shortfall in your retirement years.

While equities can have greater loss potential than short-term, fixed-rate investments, they also can have a greater potential for gain.[12] For many investors, hunkering down only in safe-haven investments—ones that retain value during market turbulence—is a luxury but not realistic. With inflation eating away at cash every year, most investors need at least some growth-oriented investments.

To know whether you should take on more risk, consult with a financial professional. Ask yourself the following questions:

- Do I have enough growth-oriented investments in my portfolio?
- Can I afford to take short-term losses for long-term gain?
- Could I afford to live on Social Security or other income in the event my accounts decline in value?
- How comfortable do I feel taking on more risk to potentially achieve higher investment returns?
- Could I live on my investments without taking on additional risk?

MISTAKE #5: MAKING EMOTIONAL

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When markets swing, emotional decision-making can wreak havoc on the most carefully designed investment strategies.

One Goldman Sachs study found that household investors comprise the only group that has sold equities in every bear market since the fifties,[13] which essentially means they have consistently done the opposite of "buy-low, sell-high repeatedly throughout their investment cycles.

For most household investors, this cycle of buy-high, sell-low is simply the result of emotional investing. A large number of investors lost money in the mortgage-meltdown of 2008. Many cashed out near the bottom, fearing the markets were collapsing. Unfortunately, many investors repeated this cycle during the pandemic volatility, while others have avoided taking on risk and have their money sitting on the sidelines.[14]

The memories of the crash run deep for investors, young and old. Gen X (born 1965 – 1981) and millennial investors (born 1982 – 1996) have already experienced many market falls in their lifetime. These early experiences have made them more susceptible to emotional investment decisions, which has manifested as risk aversion for these generations.[15]

Fear and greed can easily drive our financial decisions. Fear can cause us to abandon an investment strategy when the outcome is not what we want. Greed can cause us to chase investment fads and take on too much risk. As you invest, you can support your long-term strategies by avoiding these emotion-based decisions.[16]

As investment representatives, we can serve as the voice of reason when emotions run high. When markets decline, remember that we can help answer questions, provide reassurance, and show you the opportunities that volatile markets may provide.

MISTAKE #6: FAILING TO DIVERSIFY

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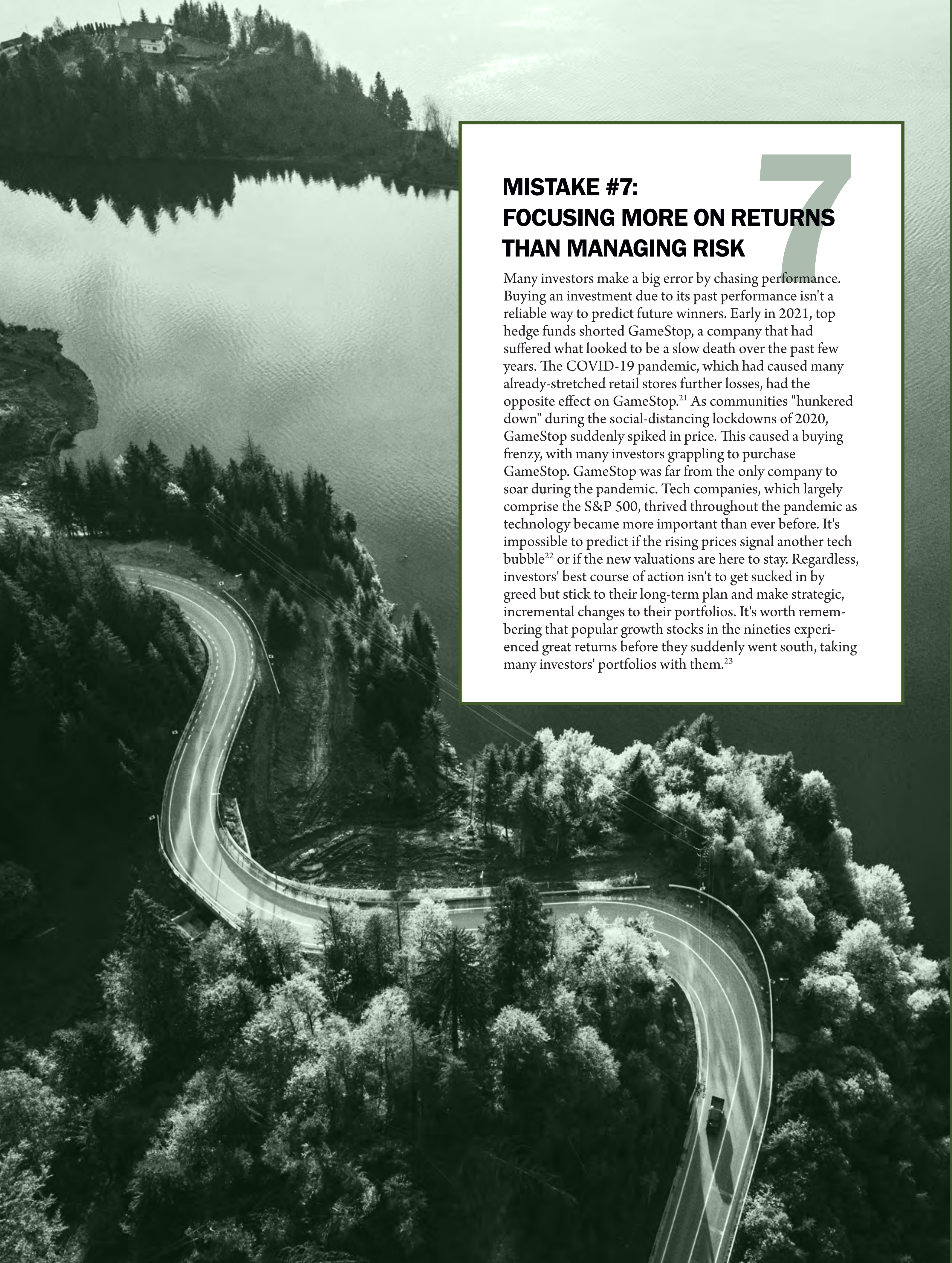
Warren Buffett once said that diversification* is "protection against ignorance."[17] In other words, no one can know everything about an investment or predict the future.

The first part of a diversification strategy consists of mixing asset classes by holding various stocks, bonds, funds, and cash or cash equivalents.[18] You can also include alternative investments, like real estate, that match your goals and investment profile. By diversifying, you can avoid investing aggressively into one class. If your investments weigh heavy in one area during a market rise or fall, the dynamics could devastate your portfolio.

The second part of a properly diversified portfolio is mixing within asset classes.[19] One critical mistake many working investors make is holding too much of their employer's stock, which can be a recipe for calamity. Imagine that you lost your job and access to your company's stock; you could lose your retirement savings in one fell swoop. Some experts recommend capping them at 10%.[20]

To help overcome this risk, opt into a good mix of small-cap, large-cap, international, and sector-diverse equities.** While a market decline may affect a certain stock or sector, a gain in another could offset the loss.

**Neither diversification nor asset reallocation can ensure a profit or protect against a loss. There's no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. **Alternative investments may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses. Investing in small-cap companies may involve greater risk in price volatility and potential reward than investing in larger, more established companies. International investing presents certain risks not associated with investing solely in the United States. These include currency fluctuations, political risks, accounting procedure differences, and the lesser degree of public information required to be provided by non-U.S. companies.*



MISTAKE #7: FOCUSING MORE ON RETURNS THAN MANAGING RISK

Many investors make a big error by chasing performance. Buying an investment due to its past performance isn't a reliable way to predict future winners. Early in 2021, top hedge funds shorted GameStop, a company that had suffered what looked to be a slow death over the past few years. The COVID-19 pandemic, which had caused many already-stretched retail stores further losses, had the opposite effect on GameStop.[21] As communities "hunkered down" during the social-distancing lockdowns of 2020, GameStop suddenly spiked in price. This caused a buying frenzy, with many investors grappling to purchase GameStop. GameStop was far from the only company to soar during the pandemic. Tech companies, which largely comprise the S&P 500, thrived throughout the pandemic as technology became more important than ever before. It's impossible to predict if the rising prices signal another tech bubble[22] or if the new valuations are here to stay. Regardless, investors' best course of action isn't to get sucked in by greed but stick to their long-term plan and make strategic, incremental changes to their portfolios. It's worth remembering that popular growth stocks in the nineties experienced great returns before they suddenly went south, taking many investors' portfolios with them.[23]

MISTAKE #8: IGNORING THE IMPACT OF TAXES

When reviewing investments, one key rule to keep in mind is that you should always look at the after-tax return of an investment.

At first glance, a 5% return beats a 3% return any day of the week. However, if the 5% return was from taxable stock dividends and the 3% came from tax-free municipal bonds, then the situation changes. For example, a hypothetical $10,000 investment might be worth $17,908 after ten years at a 6% annual return.[24] However, after accounting for hypothetical state and federal taxes (5% and 25%, respectively), you'd only take home $11,228. These taxes push your annual return down to just 1.2%. *

Ignoring taxes never pays.

** This example is for hypothetical purposes only. It is not intended to portray past or future investment performance for any specific investment. Your own investment may perform better or worse than this example.*

You should consider the impact of taxes whenever you:

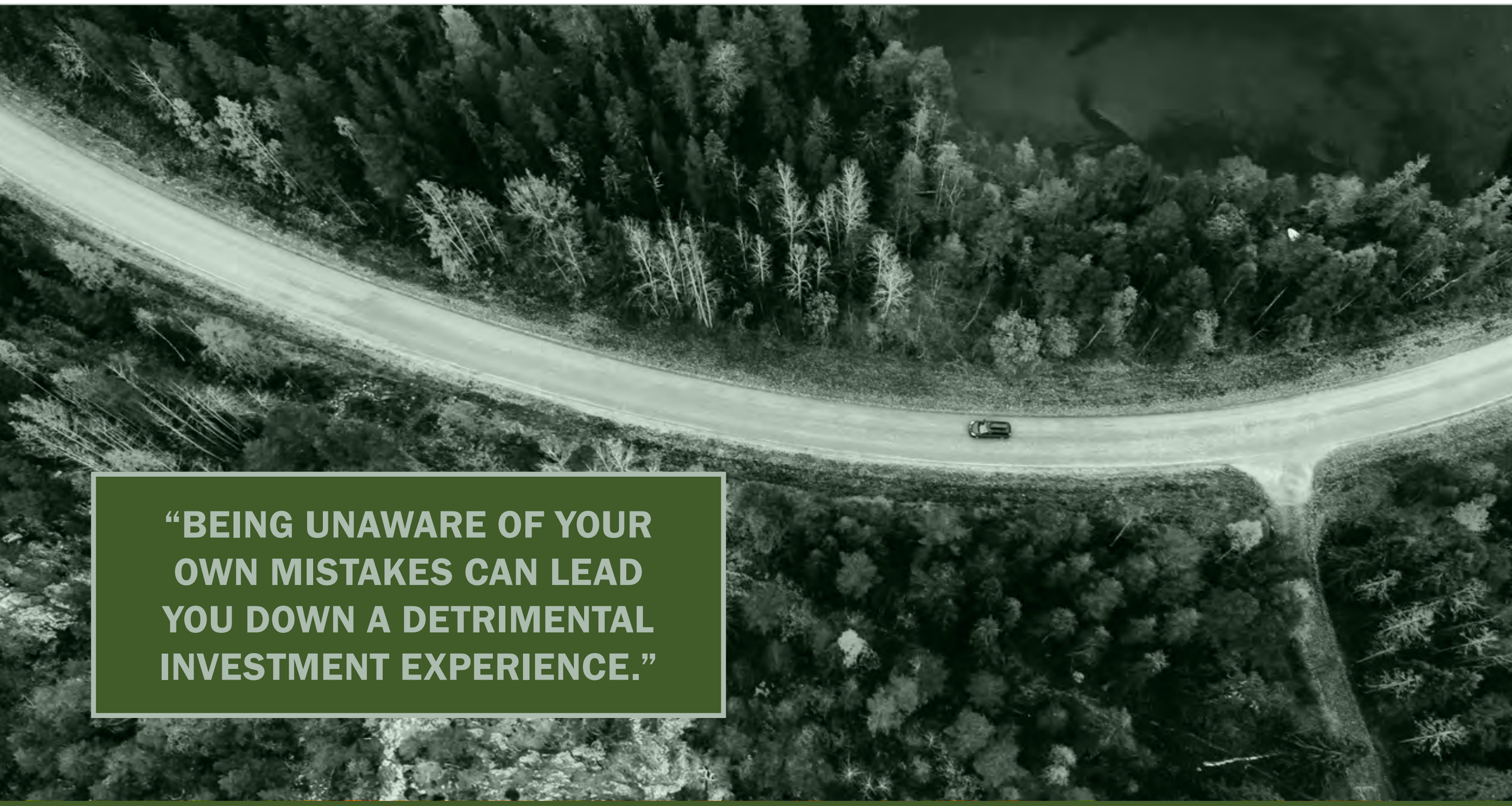
- Buy or sell investments
- Develop a financial strategy
- Discuss your estate or philanthropic plans
- Give gifts

Remember that the federal government taxes investment income like dividends, interest, and rent on real estate, as well as capital gains. Thus, it's critical to efficiently structure your investments to help minimize how much money you lose to taxes.

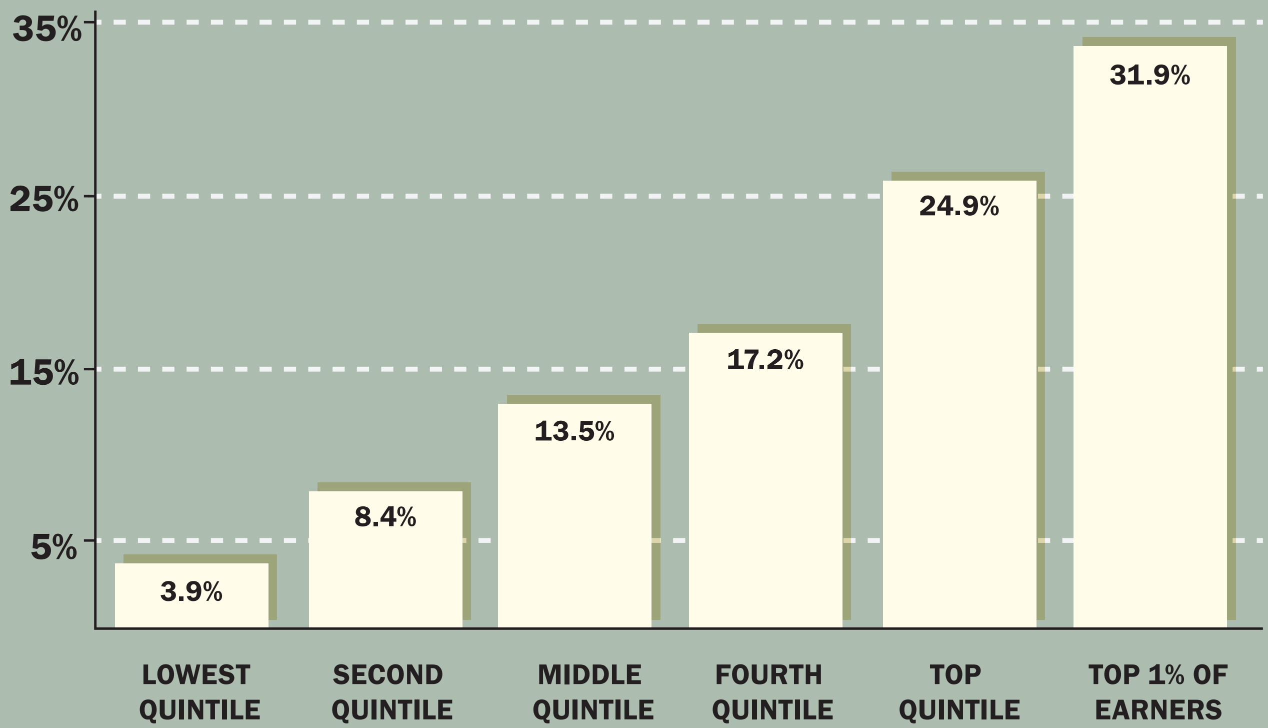
The chart to the right illustrates how much money American households pay into taxes as a proportion of their income. As our incomes increase, so do our tax liabilities.

A financial professional can help you structure your investments with tax-optimized instruments and accounts. Tax optimization is an integral part of a forward-looking strategy and can help with retirement planning as well as legacy planning. If you're concerned about taxes, be sure to discuss these items with your investment representative and tax professionals. They can work with you to determine which options are right for you.

Note: While taxes shouldn't be overlooked, sound investment strategies focus on one's investment goals, appetite for risk, and time horizon.



EFFECTIVE FEDERAL TAX RATES
(% of Cash Income)



Source: Peter G. Peterson Foundation and Tax Policy Center, as of March 2017.
Effective federal tax rate is calculated as total federal taxes paid divided by cash income.

MISTAKE #9: AVOIDING PROFESSIONAL ADVICE

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Being unaware of your own mistakes can lead you down a detrimental investment experience.

For example, in studies gauging people's feelings on whether they're better than the average person at a given task, about 90% of respondents will believe that they are. In reality, the vast majority of people can't all be better than average—meaning, many people aren't self-aware. And the same thinking applies to people who choose to invest by themselves.[25]

As such, having someone there to help you make sound, logical investment decisions can help you overcome your own irrational perspectives. In fact, Americans are unsure how to even prepare for retirement: 74% of people surveyed agree they need more retirement preparation, but 40% don't know how. Professional guidance can help—people who work with a financial professional report more confidence in their ability to reach retirement goals.

Successful long-term investing requires the ability to position and rebalance your portfolio to ride bear and bull markets. This level of complexity can make working with an investment representative critical to your ability to meet your goals.

Chasing returns and following cookie-cutter approaches on your own is risky. We believe successfully navigating the turbulent investing world of today requires training, prudent management, and commitment to a long-term, active investing strategy.

CONCLUSION

Investors who recognize and avoid these 9 common pitfalls may give themselves an advantage in pursuing their investment goals.

A long-term investment outlook requires a personalized strategy that accounts for your current and future needs, investment time horizon, and appetite for risk. These factors help ensure that no matter how the markets perform in the short term, your investments can be positioned to work toward your long-term goals. Along the way, sticking to your strategies and not letting emotions get the best of you may be essential.

While it is impossible to predict which direction markets will go, generally, each downside contains an upside potential somewhere else. With discipline and focus, you can strategically turn your dreams into financial realities. Above all, investment representatives can apply their expertise to help you pursue your goals, so you can relax and enjoy life.

If you have any questions about the information included in this report, or would like more information about our services and experience, please contact us at 888-258-2356. We are happy to meet with you to help you build the financial life you desire.

Sincerely,

Agent Name

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Add any disclosures needed here.

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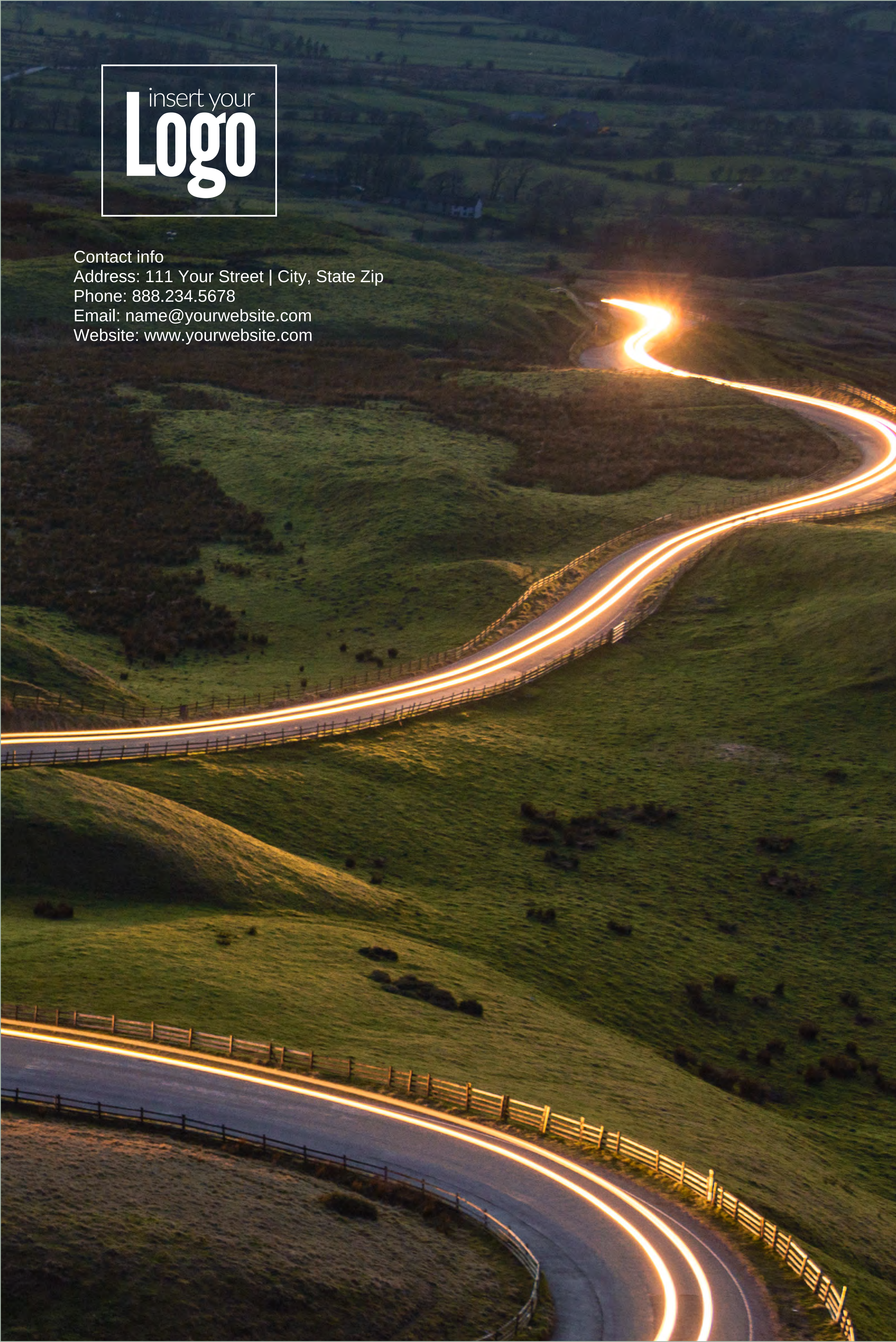

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