



THE RETIREMENT GROUP<sub>LLC</sub>  
PARTNERS IN RETIREMENT

# *Factors to Consider When Investing*

\*While there is no guarantee that any investment or investment strategy will be successful (all investments involve risk), there are basic factors that may hold true for most situations. The following six factors may help investors improve their return while limiting potential losses.

\*Not FDIC or NCUA Insured | Securities May Lose Value | Not Bank or Credit Union  
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# Long-Term Compounding: The "Rolling Snowball" effect



Warren Buffett considers compounding returns over a long time period as the most important factor behind his investing success. Simply put, compounding returns is the process reinvesting earnings from an asset to generate more return from that asset. Compounded earnings, combined with time, can help the initial investment exponentially.

For example, take an investment of \$10,000 with an 8% annual rate of return, assuming no withdrawals. In 20 years, the investment would have grown to \$46,610. In 25 years, it would be at \$68,485. In 30 years, the investment would total \$100,627!

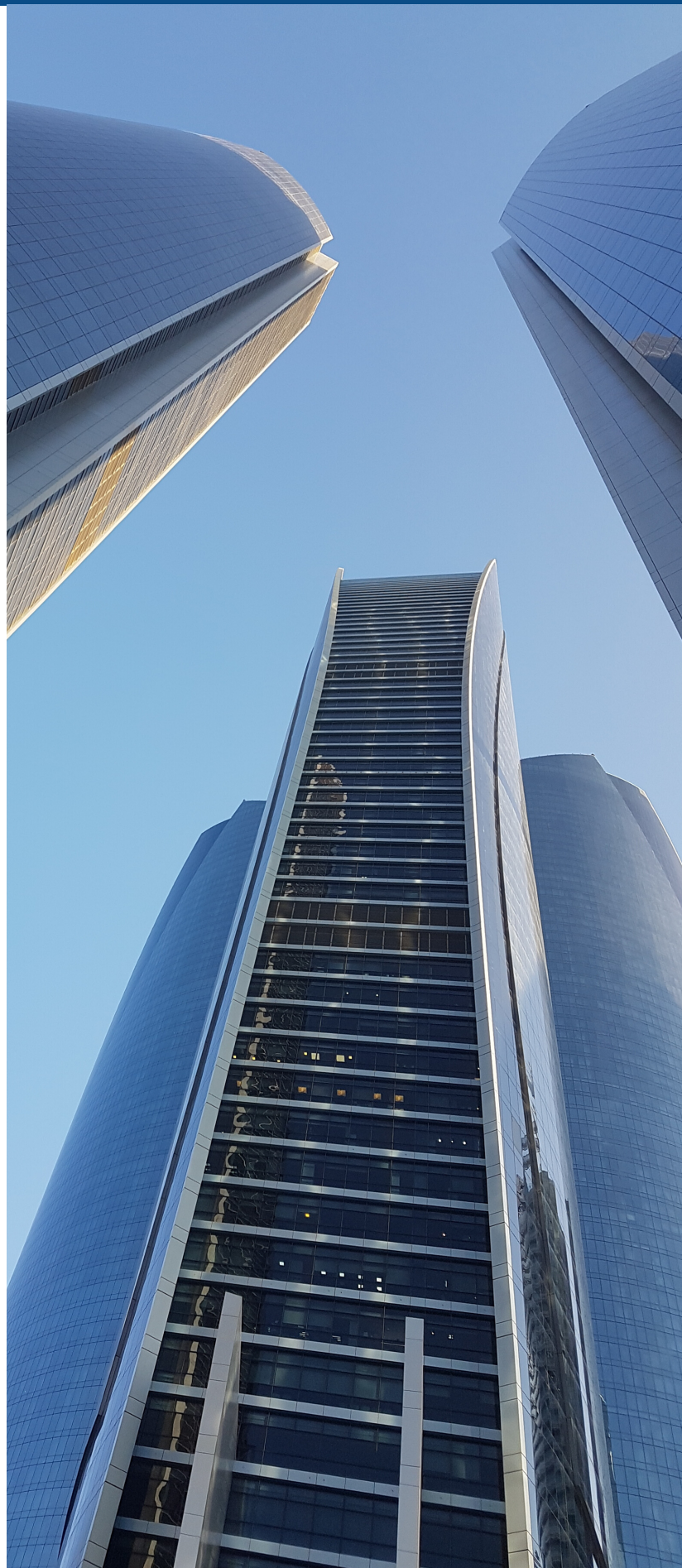
The example above is hypothetical in nature. As such it does not reflect any specific investment or actual performance. The example demonstrates the mathematical principle of compound returns. Actual investor experience will vary as a consistent rate of return with no volatility is very unlikely to ever occur. Investing involves risk, including the potential loss of principal. This hypothetical example assumes no taxes are paid and all money stays invested (which would be the case for a qualified retirement accounts). For this reason, it may be in investors' best interest to max contributions to all tax-deferred accounts available, if possible. The example illustrates that it is not important to swing for "home-run" investment ideas in order to be successful.



# Stay Rational during periods of Short-Term Volatility

It is extremely difficult to tell if short-term volatility is signaling a larger market trend or if it is just a little turbulence. It is even more difficult when your investments are involved and emotions start to take over rational thoughts. During market volatility it is important to remember two things. First, having a longer holding period with a diversified portfolio of investments, may both reduce your risk and improve return opportunities.

Historically (though past performance is not indicative of future results), the long term direction of the market has been up. Just like with compounding, it is not about timing the market, but about time in the market. Second, any given period of market volatility affects different asset classes in different ways and magnitude. For instance, bond price swings have traditionally been less volatile than stock prices. Diversification doesn't take away all the risk, there is always a possibility of loss, but risk is more likely to be reduced by diversifying across asset classes as well as within asset classes.





# Diversify Wealth across different asset classes



Continuing on the point of diversification, it is important that you do not have all eggs in one basket (especially as retirement approaches) in the event the bottom falls out of the market for that particular asset or investment.

Asset allocation is the process of spreading dollars over several categories (often referred to as asset classes) of investments. Three of the most commonly referred to asset classes are stocks, bonds, and cash & cash equivalents.

There are two reasons why asset allocation is generally accepted as an important factor in investing. First, the mix of asset classes you own over time can be important to your overall investment performance. Looking at how asset classes have performed over a long time period, stocks typically outperform bonds, which typically outperform cash & cash equivalents.

Second, asset classes respond to market forces in different ways at different times. Therefore, by having different asset classes with low correlation in your portfolio may help reduce volatility and help increase the chance of a positive return. Asset allocation and diversification do not guarantee a profit nor protect against losses in a declining market.



# Know your Investment Time Horizon

When determining an appropriate asset allocation, it is important to consider how much and how quickly you may need to convert your investment to cash. Typically, the more quickly you may need your money, the more important it is to invest in more stable investment vehicles to reduce the chance you will have to sell at a loss.





# Consider Dollar Cost Averaging



Dollar cost averaging is a method of accumulating shares of an investment by regularly purchasing a fixed dollar amount at scheduled intervals over an extended period of time. When prices are high, the fixed amount will buy less units; however, when prices are low, your investment will buy more. The regular fixed dollar investment should lower the average price per share than you would get buying a fixed number of shares.

For example, assume an investor invests \$1,000 on the first of each month into Hypothetical Mutual Fund. Assume that over the a six month period the share price of Hypothetical Mutual Fund on the beginning of each month is as follows:

The examples above are hypothetical in nature. As such they do not reflect any specific investment or actual performance. The examples demonstrate the mathematical principle of averaging. Actual investor experience will vary. Investing involves risk, including the potential loss of principal.

- Month 1: \$22
- Month 2: \$18
- Month 3: \$12
- Month 4: \$17
- Month 5: \$23
- Month 6: \$25





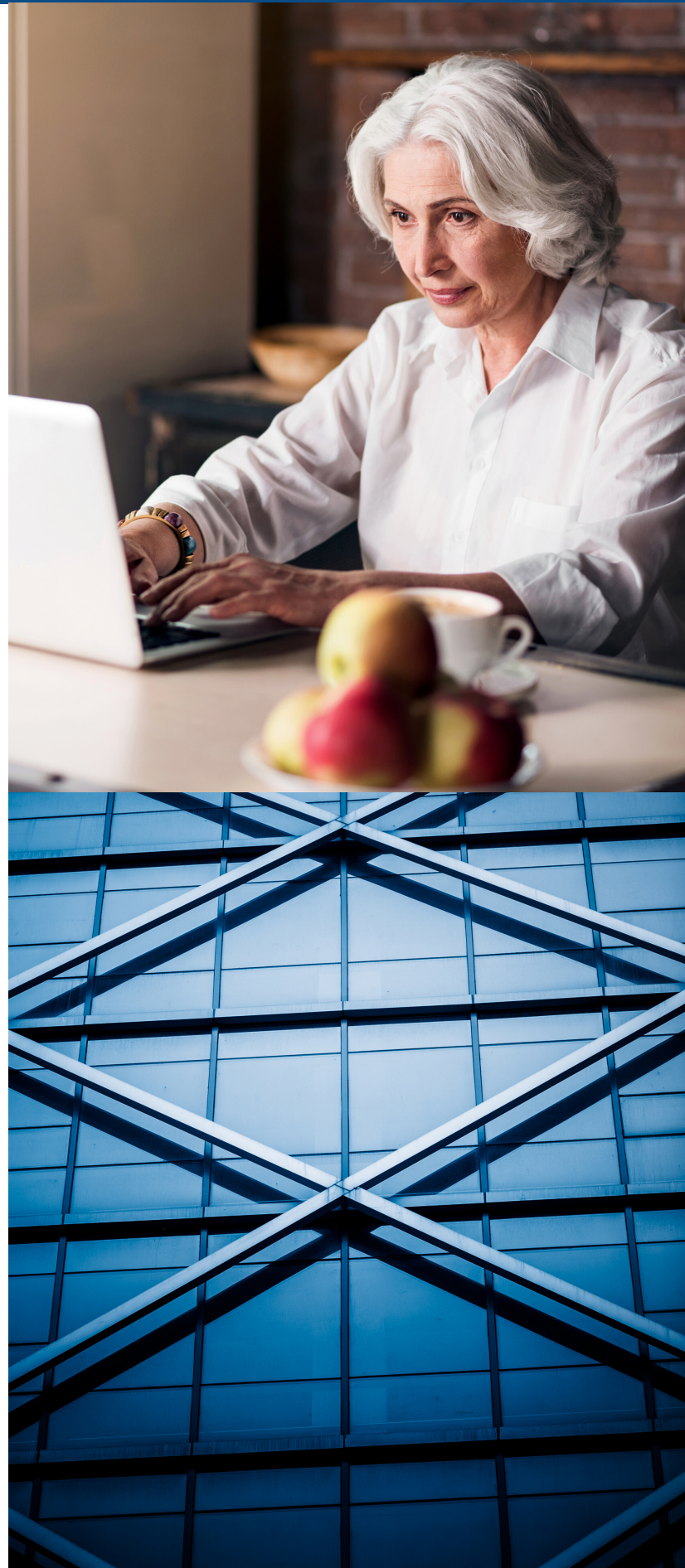
# Consider Dollar Cost Averaging

The investor can buy a number of shares equal to \$1,000 divided by the share price; therefore the number of shares purchased each month is:

- Month 1:  $\$1,000/\$22 = 45.46$
- Month 2:  $\$1,000/\$18 = 55.56$
- Month 3:  $\$1,000/\$12 = 83.33$
- Month 4:  $\$1,000/\$17 = 58.82$
- Month 5:  $\$1,000/\$23 = 43.48$
- Month 6:  $\$1,000/\$25 = 40$

This would lead to total number of shares of 326.65 with an average price paid of \$18.37. Given a current price of \$25, the \$6,000 invested is now worth \$8,166.25.

A company 401(k) plan that receives regular payment from your paycheck and allocates it across the plan is one of the most common examples of dollar cost averaging.





# Utilize a Buy and Hold, not a Buy and Forget Strategy

Staying rational and sticking to your investment plan is not easy, especially during periods of extreme volatility. During these periods the fear of loss might outweigh the excitement of gain. It is important to remember during these times that the long-term direction of the market has been up. However, economic conditions or life circumstance may change over time and you should review your portfolio periodically to ensure it reflects those changes. As an example, the closer you get to retirement, it might be wiser to increase the allocation to income producing investments over more volatile investments.

Another reason to review your portfolio is that the various investments will appreciate or depreciate at different rates; altering the asset allocation and the risk profile of the portfolio. For example, if you initially decided on an 80/20 stock to fixed income allocation, you might find after a couple of years that the new allocation has become 88/12 (or if stocks had not done well you could hypothetically have a 72/28 allocation). That would end up with you having more or less risk than desired.







## Conclusion

Investing can be complicated and market movements are generally unpredictable in the short term; therefore it is important to have a set of rules to follow to remove the emotional aspect and improve your risk/ return profile. Knowing your situation, having a long term outlook, maintain a consistent investment strategy, and not getting caught up in the day-to-day price fluctuations can help prevent you from making major mistakes with your portfolio.

## Sources

[1] <https://www.investopedia.com/terms/d/dollarcostaveraging.asp>

[2] <https://www.investopedia.com/articles/03/032603.asp>

[3] <https://en.samt.ag/behavioral-finance-theory>



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TRG takes a teamwork approach in providing the appropriate strategies for our clients' concerns. The Team has a conservative investment philosophy and diversifies client portfolios with ladder bonds, CDs, mutual funds, ETFs, Annuities, Stocks and other investments to help pursue their goals. The team addresses Retirement, Pension, Tax, Asset Allocation, Estate, and Elder Care issues. This document utilizes various research tools and techniques. A variety of assumptions and judgmental elements are inevitably inherent in any attempt to estimate future results and, consequently, such results should be viewed as tentative estimations. Changes in the law, investment climate, interest rates, and personal circumstances can have profound effects on both the accuracy of our estimations and the suitability of our recommendations. The need for ongoing sensitivity to change and for constant re-examination and alteration of the plan is thus apparent.

Therefore, we encourage you to have your plan updated a few months before your potential retirement date as well as an annual review. It should be emphasized that neither The Retirement Group, LLC nor any of its employees can engage in the practice of law or accounting and that nothing in this document should be taken as an effort to do so. We look forward to working with tax and/or legal professionals you may select to discuss the relevant ramifications of our recommendations.

Throughout your retirement years we will continue to update you on issues affecting your retirement through our complimentary and proprietary newsletters, workshops and regular updates. You may always reach us at (800) 900-5867.





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Rising Interest Rates



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