Ten Things All Successful Investors Should Know

ONE

You should know if your investment adviser is a FIDUCIARY. A registered investment adviser has a Fiduciary duty to act in the best interests of the client. In the words of the U.S. Supreme Court "...to continuously occupy an impartial and disinterested position, as free as humanly possible from the subtle influence of prejudice, conscious or unconscious; ..." To be sure, get it in writing.

TWO

You should know the total COST for managing your money expressed as an annual percent of your investments. Costs include fees, commissions, internal mutual fund expenses and transaction costs. Two identical $1 million portfolios earning 10% over twenty years – one with total costs of 2% and the second with total costs of 1% – would have ending balances of $2,158,925 and $2,367,363, respectively. A difference of $208,438!

THREE

You should know what the ANNUAL RETURN on your portfolio for the current year and cumulatively since inception of management. Sure, you get monthly statements that include interesting pie charts and graphs and tell you the current balance. But the ANNUAL RETURN strips away money deposited and money withdrawn and tells you what you really earned on your investments. You can compare that to meaningful benchmarks and inflation to determine if you are meeting your goals.

FOUR

You should know how DIVERSIFIED your portfolio really is. Do you own a lot of stocks or mutual funds? That's only part of diversification. If most of those stocks and mutual funds are classified as US Large Growth and/or US Large Value then you are missing another big part of diversification. Your equity portfolio should include a meaningful allocation to other asset classes such as US Small Company, US Small Value, International Value, International Small, Emerging Markets and Real Estate.

FIVE

You should know how much RISK your portfolio has. One simple way to reduce risk is to include fixed income in your portfolio. But, RISK often comes in the form of aggressive equities, concentration to limited asset classes or sectors, market timing and frequent trading. Ask your investment adviser to educate you so you can knowledgeably select the risk level most suitable for you.

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SIX

You should know if your portfolio includes MARKET TIMING strategies. Indications of market timing are high turnover and large amounts of cash sitting idle during periods of uncertainty or anticipated downturns. Market timing requires that you are right twice – on the way in and on the way out of the market.

SEVEN

You should know how much risk is in the SAFE part of your portfolio. If you have an allocation to fixed income investments, you may think your principal is safe. But, surprisingly, it is subject to risk and volatility if you own low-quality bonds, long-term bonds or mutual funds that hold such bonds. These investments appear attractive during certain market cycles, but academic studies demonstrate that the risk/reward relationship declines for an instrument having a duration beyond five years.

EIGHT

You should know all the costs and exactly how an ANNUITY compares to other investment alternatives before you invest in one. There are countless examples of inappropriate use of annuities. They are among the highest commission product in the investment world. They convert qualified dividends and long-term capital gains (both taxed at the lowest rate) to ordinary income (almost always taxed at a higher rate.) So before you buy one, especially in an IRA, triple check the reasons for doing so.

NINE

You should know the expected TAX IMPACT from your investments. Mutual funds with high turnover typically distribute a lot of taxable income. Paying taxes can easily drain 1% to 3% a year from your rate of return. Some investments are tax insensitive and could be owned in your IRA or retirement accounts to minimize taxes.

TEN

You should REBALANCE your portfolio annually, at least. Set targets for each asset class. If the actual value deviates from the target by more than 10%, consider rebalancing. Keep in mind the tax impact of rebalancing. Also consider whether rebalancing could be accomplished through additions or withdrawals. Remember and practice the first rule of investing: *Buy low, sell high*. Disciplined rebalancing forces you to do this!

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