

StrategicPoint of View<sup>®</sup>

## TEN QUESTIONS YOU MUST ASK IF YOU ARE **MANAGING YOUR OWN MONEY**

**There is more to managing your money than, “I like this stock.” This haphazard approach can lead to nasty surprises: investing isn’t a game—it demands experience, diligence and the ability to leave your emotions on the sidelines. Considering how hard you work for your money, the last thing you want to do is mismanage it and have only yourself to blame.**

Overseeing your investments can be rewarding and profitable—if you know what you are doing. It can also be a drain on your time, energy, emotions and wallet! It isn’t for everyone, but if you are willing to invest the time necessary to manage your money most effectively, the experience can be fulfilling.

First, the process demands insight into the basic principals of economics and investing. It also requires defining your personal financial goals and assessing your risk tolerance. Only after your goals

and risk tolerance have been properly addressed can you successfully manage your money. This report is designed to help you evaluate whether handling your portfolio is right for you and to provide you with information about the process.

**To start, ask yourself the following questions:**

### **QUESTION 1:** **Why do I want to manage my own money?**

Many people want to be in control of their finances. By managing your own assets, *you* are taking full responsibility for your financial life.

Some want to go it alone to control costs and save money. Professional financial advisors can sometimes be very expensive. Commission-based advisors charge about 4 or 5% per purchase and use mutual funds that can cost 1.5 to 2% or more a year in annual expenses, depending on the type of commission. Wrap accounts average between 1 to 3% in expenses. On the other hand, there are advisors who charge a flat fee based only on services provided, which may run you only a fraction of a percent in costs. However, many people feel that money not paid to any advisor is money that flows directly to the bottom line.

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The desire to manage your own money may result from a disappointing experience with a broker or advisor. If an advisor has failed you, you might feel angry and betrayed. Assuming the management of your investments might seem like an obvious solution. But if you choose this option you must be able to put your emotions aside and accept the responsibilities necessary to effectively manage your portfolio.

In the 1990s, investing was “fun.” There was little downside risk for performance and the upside potential was tantalizing. Times have changed. Greater uncertainty and volatility have been added to the investment world. The three-year bear market has challenged old strategies like “buy and hold,” which proved disastrous to investors from 2000 to 2003. From 2003 to 2007 the bull market resumed, albeit with more muted returns, only to be followed by the bear market of 2008 — challenging investor expectations. To manage your money effectively, it is vital to keep your strategies current with economic and market conditions as they change each day.

### **QUESTION 2:** **What are my financial goals?**

It’s time to get serious. “I want to make a lot of money,” is not a reasonable goal, because you can’t measure how to reach it! Set *specific* objectives, like “I want to retire at age 60 and live on \$60,000 a year.” Specific, realistic goals enable you to develop an action plan. In the example above, you can determine how much you need to save each year between now and age 60 to generate \$60,000 a year in income. Also, don’t assume that you will earn higher than average returns on your portfolio. If you’re betting on a 12% annual return, you need to adjust your expectations, because it is unlikely to happen, especially under the current conditions.

### **QUESTION 3:** **Have I measured my risk tolerance?**

Risk is the chance that your portfolio will perform other than expected. Most people connect risk with the chance of loss, since they expect their portfolios to perform well. Risk tolerance takes into consideration such factors as: how long until you need to spend your money, your feelings about volatility (the ups and downs of the market), and your willingness to accept losses.

If your goals require you to earn a high rate of return on your portfolio each year, then you must be willing to accept the risk associated with this rate of return. Most people do not understand the potential percentage losses that are associated with different rates of return.

#### **Example:**

If Bob wants a 6% annual rate of return in a given year, he might see his portfolio bounce around between 0.0% return and a positive 11% return in an average year. In a very bad year, Bob could live with a 4% loss. But if he wants a 10.5% annual return, he would need to be comfortable with a portfolio that could be up 31% or down 11% (and anywhere in between) in a typical year. Bob must be willing to give up 35% of the value of his portfolio in a very bad year, without panicking.

It is easy to assume too much risk when times are good and too little risk when times are bad. Understanding your risk tolerance enables you to define a portfolio allocation that is comfortable for you.

### **QUESTION 4:** **Do I have the right asset allocation?**

Before you can select what particular holdings you want to include in your portfolio, you must select an asset allocation that matches your risk tolerance.

[continued on next page >>](#)

Asset allocation divides your money among equities, fixed income (bonds), real estate, commodities and cash. Asset allocation is not static. For instance, balanced portfolios are not always 50% stocks and 50% bonds. Portfolio models keep their level of risk consistent and adjust their asset mix to allow for varying levels of volatility and uncertainty in the markets. When the economy is weak, portfolio managers reduce risk exposure (often by including fewer risk assets). When the economy is strong, managers may increase their risk exposure by adding equities and other volatile assets.

Growth investors allow themselves more equity holdings than balanced investors in good economic times, while conservative investors are unlikely ever to see the majority of their assets in equities.

It is important to always keep portfolio models broadly diversified *within* asset classes and between asset classes to avoid introducing unpredictable levels of risk.

**QUESTION 5:**  
**Do I have the time to manage my own money?**

Don't kid yourself—managing your own money can be a full-time job and you probably already have one of those. Reading about the latest and greatest mutual funds is not enough. Checking in on your assets *occasionally* is not enough either. Lastly, buying a basket of stocks and holding them as long term investments can get you into trouble.

Unpredictable market conditions require that you stay abreast of trends in the economy and reevaluate holdings in your portfolio on a frequent basis. Additionally, the particular kinds of assets you choose for your portfolio will require different levels of attention. For example, individual stocks and bonds demand meticulous research and monitoring. While on the other hand, exchange traded funds and/or no-load

index mutual funds have already done most of the research for you. The bottom line is if you cannot give your investments the attention they deserve, it is a good idea to seek help.

**QUESTION 6:**  
**Am I using the right investment strategy?**

In the heyday of investing between 1982 and 1999, everybody was out there “buyin’ and holdin’.” It worked at that time because it was a bull market. Then 2000 rolled in and those who kept clinging to their stocks over the next three years saw their portfolio values decrease substantially.

In periods of uncertain growth, as we have experienced recently, a more active management strategy becomes critical to a successful investment approach. Knowing when to sell and being able to execute the sale is vitally important. You should have a strategy for both selling and buying. Set limits for how high or low you'll let a stock go before selling it. Keep your strategy active and monitor your portfolio frequently, making changes as economic and market conditions indicate. Attempting to time the market can be a disaster, but careful ongoing review of your asset allocation, level of diversification and the strength of your individual holdings can enable you to respond both to changing economic conditions and to the continued appropriateness of any particular asset within your portfolio.

**QUESTION 7:**  
**Am I too emotional about investing?**

Investing should be an emotion-free activity for money managers. This can be a problem for those who manage their own money. People sometimes hold stocks for sentimental reasons. For example, you may have received GE stock from your grandmother when you were young and it now makes up

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30% of your portfolio. Or you may hold too much of your company's stock in your 401(k) plan, stock options and through stock purchase plans. Perhaps you simply bought a stock that rose dramatically in the past and you are reluctant to let it go.

Hanging onto an investment for emotional reasons can increase risk in your portfolio and often reduces diversification. Your goal should not be supporting a company, but rather supporting yourself.

Another emotional pitfall concerns taxes. Everyone dislikes paying taxes, but investors can make the mistake of allowing taxes to dictate an investment decision instead of being only part of that decision. Some investors may hold onto positions too long, because they do not want to take a capital gain. Others may refrain from selling poorly performing, undesirable positions in order to avoid realizing painful losses. Tax considerations are especially important now in light of potential legislative changes that could increase rates. The best way to deal with taxes is to map out an unemotional investment strategy that allows for both gains and losses within the context of one's personal tax planning and anticipated tax rates.

Bottom line, if you can't buy or sell with an unbiased eye, then you may want to find someone who can help you make more objective decisions.

#### **QUESTION 8:**

##### **What can I do to understand investing better?**

First and foremost, no one media source should serve as your only outlet for investing ideas. Good investing starts with insight into global economic trends regarding interest rates, inflation, employment, productivity, demand, supply, business cycles, monetary policy, and fiscal policy. It goes on to require an understanding of investment concepts that can affect performance, such as: risk, liquidity, diversification, return and leverage.

A good place to start for learning about the economy, the impact of geopolitical events, trends in the investing world, and news about particular companies, personalities, legislation and regulation is *The Wall Street Journal*, its sister publication, *Barrons*, and *The Financial Times*. In addition, CBS.Marketwatch.com is a good website to find up-to-the-minute economic and business news for the general public.

There are a zillion "how to" books on investing. Any title that promises riches or opportunity should be avoided. Look for books that provide an historical perspective. History doesn't repeat itself exactly, but many investors in the spring of 2000, or more recently during the housing boom would have benefited from understanding past business cycles and the history of bubbles and manias.

Subscription newsletters, magazines or investment guides can be a good place to initiate ideas for investing. However, many subscriptions thrive on making suggestions for buying specific holdings but rarely recommend when to sell assets, especially the ones they recommended earlier. In short, subscriptions can provide ideas for further research, but need to be used in conjunction with other sources.

Television (and radio) should be observed too with healthy skepticism. Like written media, live shows can provide information that can be helpful and informative but can also be geared towards ratings. Avoid shows that focus solely on "hot stocks." Choose programs that talk about economic trends, financial planning and investing—concepts that might help you improve the understanding of your own situation. Finally, try to read sources that take the opposite view to help you understand the whole story.

#### **QUESTION 9:**

##### **Can't I pay someone for just a little advice?**

Of course, but be mindful of what you are paying

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for. Many people who handle their own investments would like to consult with someone to see if they are “on the right track.” In their minds, this means sitting down with an investment manager and reviewing their portfolio. They imagine paying that person for their face-to-face time only. However, good advice comes from more than a quick portfolio review and will likely involve more than an hour of any professional investment manager’s time.

Any meeting you have with an investment manager will involve a review of your personal financial situation, your goals and risk tolerance *before* discussing your investments. This part of the meeting should not be short changed.

For example, imagine that you have a portfolio of individual stocks and bonds that you have held for a long time. You want to sell some of the stocks, and replace them with others, but you just aren’t sure which stocks are the best to sell and buy right now. You have done some research but want to run your thoughts by a financial expert.

After the financial expert has gained a clear picture of your financial situation and risk tolerance, he or she will look at your asset allocation, level of diversification, your sector weighting, and your individual holdings. However, more than likely, the expert will need to spend time outside the meeting analyzing your portfolio and making appropriate recommendations, before presenting any recommendations to you. This translates into extra time for which you will be charged. Later, a subsequent meeting would be held to review the financial expert’s recommendations. He or she may also suggest that you return in six months for an additional review as economic conditions are likely to change in that time.

The picture looks less expensive if you are invested in index funds. The financial expert should focus on asset allocation, level of diversification and division between asset classes. Without the additional

research cost for individual stocks and bonds, the cost could be lower but could still involve several hours of time.

So don’t expect to walk off the street and sit down with an investment manager for an hour, leave with a list of recommendations for your portfolio, and pay a modest fee. Most investment advisors charge between \$150 and \$300 an hour for advice. There is nothing wrong with paying for good, competent advice, just understand that if you aren’t willing or able to do your own research, you will need to pay someone to do it for you.

#### **QUESTION 10:**

#### **How do I know when it is time to stop managing my own money?**

If you have confidence in your abilities and have the time, energy and resources it takes to invest properly, then keep going. When investing becomes a burden, it is time to hire someone to do it for you. Too often, those who have managed their own portfolios are hesitant to cede control. However, by choosing professional management of your portfolio you *are* taking control. The worst thing an investor can do is neglect his finances. Whether it’s due to lack of time, interest, or know-how, this could put your future at risk.

When you decide to hire an advisor, select your candidate carefully. Know what you are paying for and what you can expect from the service provided. Having managed your own money, you recognize the work that is required to invest wisely and the importance of research. Do your homework and select someone who will put your goals and best interest above all else and who will design an investment strategy to best help you meet those goals.

To learn more questions you should ask when interviewing financial advisors, read StrategicPoint’s

[continued on next page >>](#)

*Ten Critical Questions You Must Ask Before Hiring a Financial Advisor.* View and download this article at [URL] or call 1-800-597-5974 for your complimentary copy today.

## Conclusion

Being your own personal manager might be the right investing approach for you. You can develop an effective strategy if you stick to your goals and stay within your risk tolerance. Just remember that you are not admitting defeat if you hire someone to help you. Rather, you are just utilizing professional resources to take control.

Need a head start to managing your money? To determine your financial goals and establish an action plan, take StrategicPoint's Financial Check-Up. The Check-Up is an easy way to help analyze many aspects of your financial life, including net worth, retirement planning, education funding, insurance and cash flow. To learn more about StrategicPoint's Financial Check-Up, visit [www.strategicpoint.com](http://www.strategicpoint.com) or call 401-273-1500 or 1-800-597-5974.

## Questions about this article:

Please send an email to [info@strategicpoint.com](mailto:info@strategicpoint.com).

## To schedule a meeting with a StrategicPoint advisor:

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