

## Accumulating Wealth in All Markets

“Everything in moderation,” as the saying goes. The concept of asset allocation has been around for a long time. The question of whether it works has been disputed – more during the mid-to-late 1990’s than in any other time. The nay Sayers all cried, “value is out, tech is in,” only to woefully be proven that concentrated investments in one industry sector can prove short-term success, but long-term failure. As is the case with many things in life and investments – getting back to basics and utilizing common sense can prove to be your best long-term investment strategy.

Mutual funds are still a fabulous way for the average investor to start an investment plan. Generally speaking, you should avoid sector funds (those concentrating in one industry or market sector, i.e. technology, biotechnology, healthcare, financial services, etc.) since mutual funds were created for diversification (the old theory of don’t put all your eggs in one basket) and a good mutual fund will be diversified with investments in many industries.

Dollar cost averaging over the long-term is a good idea. This concept of buying equal dollar amounts of the same mutual fund at regular intervals (i.e., monthly, quarterly, etc.) generally results in your paying less per share over time. The philosophy works in declining markets (periods when general market prices are falling), but doesn’t work (you’ll have paid more per share) in rising markets. However, for the average person with limited amounts of cash on hand who can’t make large lump sum purchases, dollar cost averaging provides the best method for a regular systematic investment plan.

Everyone – no matter if you’re 25 or 85 – needs some exposure to fixed-income securities (or, as they’re simply called, bonds). In order to create an adequate asset allocation, bonds and stocks – even if these investments are in bond funds and stock funds – must be included in your portfolio. You may need 20% in fixed income or you may need 60%, but you need bonds in your portfolio. (Ask all of the investors that were 100% invested in stocks in the late 1990’s what they feel about bonds now!)

Stay away from margin accounts! Borrowing against your portfolio to buy more stocks, bonds or mutual funds can only lead to trouble. The depression-era generation lived by the rule, “if you can’t pay cash, don’t buy it.” This rule should be applied to investing as well. If you’ve borrowed against your investments to buy more investments and the ones you borrowed against go down in value, you still owe the money you borrowed. If you buy a \$150,000 house with a \$140,000 mortgage in a good neighborhood that turns bad (say a chemical plant moves in) and the new market value of your house is \$90,000 – guess what? You still owe \$140,000! That’s exactly what happens with margin accounts when the market turns.

Buy no-load mutual funds or index funds. There is no point in paying a sales charge or commission that is part of the typical A, B or C-share mutual fund when you can buy no-load funds on your own and avoid the fees. If you’re unsure about the funds to buy, start with a good balanced or hybrid fund that has stocks and bonds in the portfolio. The Oakmark Equity & Income fund is one that I use regularly with clients. The tricks to mutual fund investing are (1) they’re for the long-term – five years or more; (2) they go up and down in value – whether they’re bonds, stocks or both; (3) they are not insured or guaranteed from loss of principal (your investment), and (4) they are not a place for your emergency or rainy day funds.

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