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Wealth Matters Newsletter

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9 Investment Pitfalls for Investors to Avoid

Financial markets are rarely easy to navigate alone, and when you add in economic factors, complex political and global developments and devastating weather events, it can seem even more challenging. Experience has taught us that successful investing requires discipline and patience. A long-term investment focus can help when emotions run high. While balancing ongoing changes can seem daunting, a steady course can help buffer you against turbulence and uncertainty.

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

Mistake #1: Believing Investing is a Smooth Ride

Even though the stock markets have performed well overall, investors need to remember that nothing lasts forever. The dot-com bubble of the 1990s and the Great Recession from the 2000s remind us that, eventually, high markets will fall. However, investors may still find opportunities to grow their money in a choppy market.

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 derail long-term goals. Instead of retreating during turbulence, you may need to adjust your investment mix. By remaining flexible, you may 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. That's why we develop an Investment Policy Statement (IPS) with each client so that when times get emotional, we have a guide that was prepared when heads were more clear and reactions weren't heightened. 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, seeking out the top to sell or the bottom to buy may seem tempting. The problem, however, is that investors usually guess wrong, potentially missing out on the best market plays.

For example, 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, and more. Over that period, $10,000 invested in 1986 would have grown to more than $94,000 (excluding investment fees and expenses). 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.

Why?

One reason is trying to time the market. When people invest on the high and pull out on the low, they may miss opportunities by not remaining patient. The problem is that equity gains can often be made in a very short amount of time. If you are not in the market when it moves, you may miss out on the whole play.

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 small adjustments to help you stay the course.
** The S&P 500 is an unmanaged index which cannot be invested into directly. Past performance is no guarantee of future results.*

Mistake #3: Taking Too Much Risk
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.

During the bull market days of the mid 1990s and early 2000s, money poured into equities—often into risky tech and internet stocks. The value stocks trading low had many of their investors fleeing toward higher returns. When a bear market followed 9/11, the bottom fell out of the tech sector; meanwhile, many value stocks weathered the storm. Investors who took on too much risk—not wanting to miss out on the dot-com boom—most likely saw 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 the investments respond to market declines all in the same way, you may increase the risk of losing substantial value.

The objective is to take on the amount of risk that still aligns you with your long-term goals. We help our clients by evaluating their comfort level with risk and then designing a portfolio that aligns with their needs and comfort level. If you do choose to go it alone, ask yourself these questions when evaluating your portfolio:

- 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 appetite for risk?

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. This aversion to risk can adversely affect long-term investments as too many fixed-rate investments put a cap on your portfolio's profitability. Inflation is a serious concern in long-term investing and too little growth in your investments can leave you with a shortfall in your retirement years.

In both 2016 and 2017, investors pulled billions of dollars out of U.S. stocks—the largest amount since 2004—despite the S&P 500 experiencing record highs. A variety of factors may be causing investors to act more cautiously, including ongoing global uncertainties and fears from market highs. By trying to reduce portfolio losses, however, investors may be trading one type of risk for others: inflation, high valuations, and greater-than-expected volatility.

While equities can have greater loss potential than short-term, fixed-rate investments, they also can have a greater potential for gain. 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, it helps to discuss your thoughts and concerns with your advisor. Ask yourself (or ask them to help you answer) 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 Investment Decisions

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

A large number of investors lost money in the mortgage-meltdown of 2008. Many cashed out near the bottom, fearing that the markets themselves were collapsing. But even as markets rally, some investors still aren't taking on enough risk and have their money sitting on the sidelines.

The memories of the crash run deep. Gen X investors (born between 1965 and 1981) have experienced many market falls, making them more susceptible to emotional investment decisions. Some investors may even still make emotional decisions when working with a professional. According to one study, 57% of investors who work with investments representatives still panic and sell during down markets.

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.

As financial advisors, 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

Warren Buffett once said that diversification* is a "protection against ignorance." 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, and cash. Some investors also include alternative investments, like real estate, that match their 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. 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%.

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 might offset the loss.

**Neither diversification nor asset reallocation can ensure a profit or protect against a loss. There is 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 is not a reliable way to predict future winners. Popular growth stocks in the 90s experienced great returns before they suddenly went south, taking many investors' portfolios with them.

In short, if a particular asset class continually outperforms for 3 or 4 years, you can know one thing with certainty: You should have invested 3 or 4 years ago. Often, by the time the average investor decides to invest, experienced investors have already rebalanced. Meanwhile, the not-so-savvy money continues to pour in beyond the investment's prime. Don't make this mistake. Stick to your strategy, rebalance, and focus on investments with great fundamentals rather than chasing returns.

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 10 years at a 6% annual return. However, after accounting for hypothetical state and federal taxes (5 percent and 25 percent, respectively), you would only take home $11,228. These taxes push your annual return down to just 1.2 percent.*

Ignoring taxes never pays.

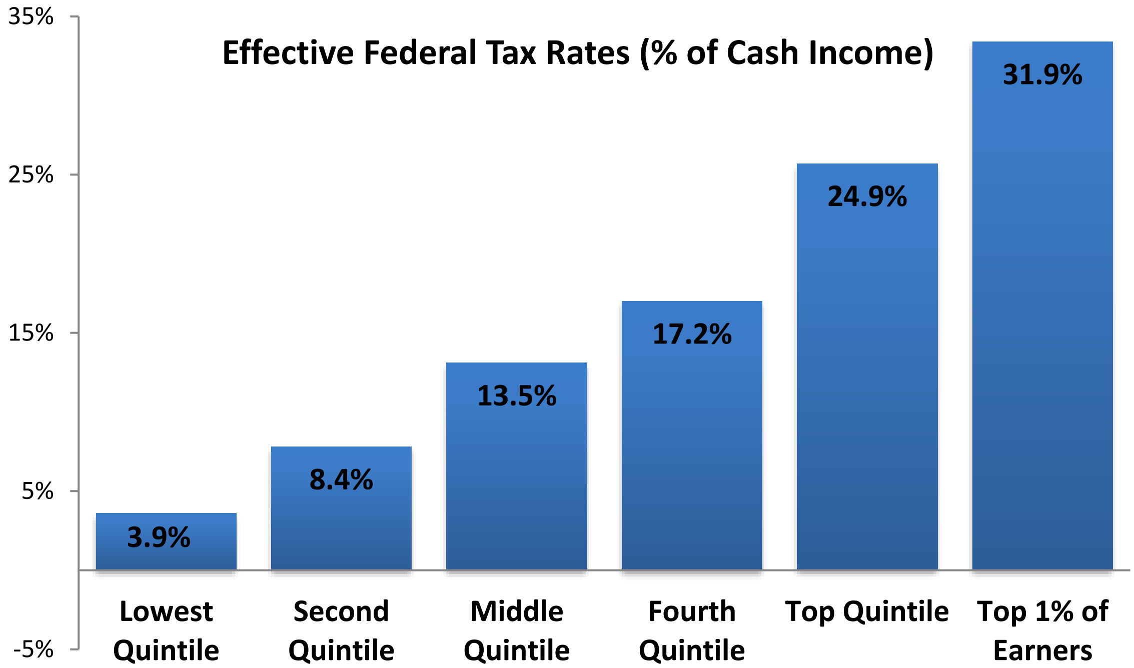
** This example is for hypothetical purposes only. It is not intended to portray past or future investment performance for any specific investment. Your own investment may perform better or worse than this example.*

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



To minimize tax obligations, one investment strategy is to shift a portion of investments to assets that generate income exempt from federal taxes, such as municipal bonds.* And while this approach may not work for everyone, it reflects how forward-looking strategies can help you thoughtfully structure your portfolio. If you are concerned about taxes, be sure to discuss these items with your advisor and tax professionals. They can work with you to determine which options are right for you.

Note: While taxes are not something to overlook, sound investment strategies focus on one's investment goals, appetite for risk, and time horizon.

**Municipal bonds are subject to availability and change in price. They are subject to market and interest-rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply.*

Mistake #9: Avoiding Professional Advice
Being unaware of your own mistakes can lead to a detrimental investment experience.
For example, in studies gauging people's feelings on whether they are better than the average person at a 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 are not self-aware. And the same thinking applies to people who choose to invest by themselves.

As such, having someone there to help you make sound, logical investment decisions can help you overcome your own irrational perspectives. In fact, many 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. But professional guidance can help. People who work with a financial representative 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 913.814.3800. We are happy to meet with you to help you build the financial life you desire.

Sources Available Upon Request

Elder Financial Abuse: Warning Signs and Reporting

Nationwide, elder abuse is a major public health problem. Elder abuse occurs when a caregiver or someone in a relationship of trust with the elder intentionally causes, creates, or fails to prevent a risk of harm to an adult 60 or older.

Elder abuse includes physical, sexual, emotional, and financial abuse as well as neglect and abandonment. The Centers for Disease Control estimates that elder abuse in the United States—including neglect and exploitation—happens to 1 in every 10 people ages 60 and older who live at home.

However, it is difficult to determine the full degree to which elder abuse occurs, according to the National Institute of Justice. Among the reasons for this are:

- few dependable national measures, due in part to lack of uniform reporting systems in the United States;
- unreliable national incidence and prevalence data because states have varying definitions of elder abuse; and
- differing reporting procedures among states.

Experts believe elder-abuse statistics are underestimated because victims fear revealing or reporting abuse and fraud that have been committed against them. The US Department of Justice estimates that only 1 in every 23 cases of elder abuse gets reported to adult protective services.

While there are several types of elder abuse, we will focus primarily on financial abuse and exploitation and touch on the other types of abuse as they may pertain to financial abuse.

Elder financial abuse or exploitation is the illegal, unauthorized, or improper use of an older individual's resources by a caregiver or other person in a trusting relationship, for the benefit of someone other than the older person. This might include depriving an older person of rightful access to, information about, or use of personal benefits, resources, belongings, or assets. Examples include forgery, misusing or stealing money or possessions, using coercion or deception to compel the elder to surrender finances or property, or improperly using the position of guardianship or power of attorney.

Unfortunately, the United States has no national standardized reporting instrument that tracks financial exploitation of elders, though there have been several small-population studies of elders. In fact, experts report that elder-abuse knowledge lags behind child-abuse and domestic-violence understanding by as much as 20 years. More research is needed in a coordinated, systematic approach that includes policy makers, researchers, and funders.

In a small-sample population of elderly New Yorkers, one study found that the highest rate of elder abuse occurred for major financial exploitation, with a rate of 41 cases per 1,000 surveyed.

It is estimated that elders who have been abused are at a 300% higher risk of death compared to those who have not been victimized. Although still underreported, elder financial abuse and fraud are self-reported more often than neglect or emotional, physical, and sexual abuse.

Financial Fraud Is One Of Five Types of Elder Abuse

Elder financial abuse can affect anyone of any ethnic background, gender, or financial status. Elder financial abuse often is called “the hidden abuse” because people often do not see or recognize that it is happening.

In addition to financial fraud and abuse, it is important to know there are four other kinds of mistreatment that can occur among people 60 and older.

Physical abuse: The intentional use of physical force that results in acute or chronic illness, bodily injury, physical pain, functional impairment, distress, or death.

Sexual abuse: Forced or unwanted sexual interaction (touching and non-touching acts) of any kind with an older adult.

Emotional abuse: Verbal or nonverbal behavior that results in the infliction of anguish, mental pain, fear, or distress.

Neglect and abandonment: Failure by a caregiver or other responsible person to protect an elder from harm, or the failure to meet needs for essential medical care, nutrition, hydration, hygiene, clothing, or basic activities of daily living or shelter that results in a serious risk of compromised health and safety.

Who Commits Elder Financial Abuse?

The volume and complexity of reports of financial abuse of older adults has risen considerably over the past 10 years. According to the National Adult Protective Services Association (NAPSA)—a nonprofit organization that provides APS programs a forum in which to share information, solve problems, and improve the quality of services for elder abuse—90% of abusers are family members or trusted others, although scams and frauds by strangers also are common.

Financial exploitation often involves people that the elderly person trusts, such as:

- caretakers
- family members
- neighbors, friends and acquaintances
- attorneys
- bank employees

- pastors or other church leaders
- physicians or nurses

It is projected that financial abuse and fraud cost older Americans $36.5 billion per year. Because of their own funds being stolen from them, about 1 in 10 victims of financial abuse will turn to Medicaid for medical care. Additionally, recent studies show that elder financial abuse is not only costly but deadly, according to NAPSA.

Risk Factors and Warning Signs for Elder Financial Abuse

There are many influences that contribute to the financial abuse of elders, including:

- low household income
- unemployment or retirement
- poor health
- social isolation
- cognitive impairment

About 5.3 million Americans have some kind of dementia, and close to half of all people older than 85 have Alzheimer's disease or another type of dementia, which is defined as a chronic or persistent disorder caused by disease or injury to the brain and marked by memory disorders, personality changes, and impaired reasoning. Research shows that those with dementia are at higher risk of elder financial abuse than those without the condition.

Social isolation is another risk factor. In our mobile, transient society, there are fewer multigenerational families and households, and often, adult children do not have a sense of responsibility for caring for their elderly parents, which means there are fewer people in an older person's life who are aware of potential financial abuse. Interestingly, too, studies suggest that as we age, dementia and other deterioration in neurocognitive health can negatively affect our anterior insula, which helps us regulate self-awareness, subjective awareness, and our "gut feelings." This could mean that dementia and other neurological disorders such as Parkinson's disease can affect our ability to have a gut feeling about whether someone is trustworthy.

The red flags that elders may be targets for or victims of financial abuse vary, sometimes depending on their living situations. Here are major warning signs to look out for:

- large piles of unpaid bills
- not having enough money to cover food or medicine costs
- lots of junk mail or letters from the lottery
- unkempt home, uncut grass, or unrepaired issues in the home

These signs could indicate elders' physical or mental health is deteriorating or that someone in a position of trust or a stranger is taking advantage of them financially, and the elders are left with very limited funds to maintain their lives.

More substantial warning signs might include the following:

- suspicious changes in wills or powers of attorney; for example, an elder suddenly changes his or her will to leave all belongings to a new nurse
- financial activity that the elder could not have completed on his or her own, such as repeated ATM withdrawals from a hospitalized relative's bank account
- significant withdrawals or unusual purchases on a frugal relative's credit card bill

These are more serious red flags and might suggest that a person of trust has moved into an elder's life and learned or stolen important account information.

Reporting Elder Financial Abuse

One of the most important things you can do for an older person whom you suspect is being financially abused or exploited is to report it. If you decide to act, you can remain anonymous. Elders probably will not understand the situation they are in, so they likely will not reach out to anyone for help.

These are ways you can assist an elder whom you believe might be in danger:

- If you suspect the elder is in immediate physical danger, call 911.
- For non-life-threatening emergencies, you can call the Eldercare Locator helpline at (800) 677-1116 or the Victim Connect hotline at (855) 4-VICTIM (484-2846).

- Contact the National Adult Protective Services Association. Its website (napsa-now.org) provides complete information about all types of elder abuse, ways to watch out for elder abuse, what to do if you suspect abuse, and comprehensive information about how to report suspected abuse.

Remember that only about 1 in 23 cases of elder abuse is self-reported. Your willingness to report elder abuse could make a significant difference in an older person's life.

Elder financial abuse is pervasive. Exploitation reports also frequently involve allegations of other types of abuse and neglect, such as physical or emotional abuse. Victims often lose trust in others and a sense of security. They might become depressed or anxious. They often feel fearful, guilty, and angry, as well as ashamed and remorseful. Even worse, they are left financially destitute. They may lose their main residence, become reliant on government "safety net" programs, or no longer be able to afford long-term-care needs.

Fortunately, there are inroads to developing more accurate and reliable national reporting mechanisms as well as new and ongoing research about risk factors and prevention methods.

Remember, there are many resources available online that provide information about warning signs and how to recognize elder financial abuse, as well as how to report and prevent it. We also want to offer ourselves as a resource to you and your family. We are happy to answer any questions you might have about your current situation or the situation of a loved one or friend. We want to assist you in ensuring your loved ones have the safest and highest quality of life possible and that their financial reserves are protected.

Wedding Announcements
It has been a time of great celebration for the Searcy team as we have celebrated three weddings over the past two months.

John & Ellen
John Fales married Ellen Sheftel on April 28 in Atlanta, GA. The ceremony and reception were held at The Ritz-Carlton and the couple enjoyed a honeymoon traveling through Italy.


Jessica & Chris
Jessica Searcy wed Chris Kmetty on May 18 in Phoenix, AZ. They tied the knot in a private ceremony but have promised their six kids there will be a cake tasting before their reception at a later date.

Marc & Bridgette
Marc Shaffer married Bridgette Casey on May 19 in Kansas City, MO. The ceremony was held at Our Lady of Perpetual Help - Redemptorist Catholic Church followed by a reception at the Country Club Plaza Marriott. They are enjoying a honeymoon in Maui, HI.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