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WEALTHYMINDS

INSIGHTS FOR YOUR FINANCIAL WELL-BEING

INVESTMENT CHOICES: LET YOUR GOALS BE YOUR GUIDE

People's United Advisors®

INVESTMENT CHOICES: LET YOUR GOALS BE YOUR GUIDE

KNOW YOURSELF

Often investors plan around how much return they're earning and at what level of risk. **Planning should begin with your aspirations and then end up with a portfolio well suited to deliver on them.**

ARE YOU LOOKING FOR SOME advice on how best to structure your investment portfolio? You won't have any problem finding it. Sometimes it seems as though every financial commentator has a list of things you should know and ask before making investment decisions. But no two lists are exactly alike, so what blueprint should you follow?

We'd begin with a simple piece of advice: Know yourself. Your goals and your needs should drive your investments, not the other way around. It sounds self-evident, but too many investors wander into portfolios and then structure their lives around how much return they're earning and at what level of risk. They're putting the cart before the horse: Planning begins with your aspirations and winds up with a portfolio well suited to deliver on them.

But that's just the beginning; we need to drill down into the elements of good investment structuring. This paper is not intended to give answers, but rather lay out some choices that investors face as well as some realities of the investment markets.

First, Why Are You Investing?

In other words, when will you need the money you're putting away? Is it for an emergency fund to tide you over for at least six months if something untoward happens? If so, you can't afford to take any risk, since the fund needs to be available to you on a moment's notice. You should rely on a cash equivalent like a bank savings account or a money-market account.

Or is the money designed not for an immediate need but for an event in the near future: a wedding coming up in the next year or two, a down payment on a house you plan to buy in the next few years, or something of that ilk? You might still choose to sock it away in cash. Or if you feel comfortable taking a small amount of risk in pursuit of slightly higher return, a short-term bond fund may be appropriate.

Or are you making a long-term investment—money that you won't need for years or even decades? For a comfortable retirement perhaps? Or a college fund for a child or grandchild. Or a legacy or philanthropic gift that you'll bestow relatively far in the future.

It's your choice: *The experts will tell you that the longer you plan to hold the money, the more you should probably invest in stocks, since they're historically shown to provide you with the highest return over time. That advice is sound, as far as it goes. But investing in equities does include a certain degree of risk and it is necessary that you understand the full range of options available to you as an investor.*

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When Did You/Will You Start Investing?

It's not only the risk/return time horizon of your investments that counts, but your own time horizon. Generally speaking, the younger you are, the more risk you can afford to take, since you have the time to get through the tough periods that you'll encounter with riskier investments (like stocks).

It's your choice: *Here again, the conventional wisdom may not sit well with you if you're highly risk-averse, regardless of how young you are. And there are financial experts who believe that young investors are better off starting out with safer asset classes so they'll feel secure about investing before they face the realities of a potential stock-market downturn. For some of the issues that investors often encounter at various ages, see* "A Quick Guide to Investment Choices by Generation" *in the table below.*

A QUICK GUIDE TO INVESTMENT CHOICES BY GENERATION

The table below outlines some—by no means all—of the decisions that investors may face at various stages of their lives.

ISSUES/CONSIDERATIONS	POTENTIAL IMPACT
MILLENNIALS *(BORN 1981-1996)*	
STUDENT-LOAN DEBT Pay off debt or invest instead?	Paying off debt will be emotionally satisfying, and delinquency on student loans should always be avoided; refinancing debt may be possible if prevailing rates are low. Balance interest rate with likely long-term stock return (ca. 7-10% per year). Paying off debt and investing are not mutually exclusive.
CREDIT-CARD DEBT Pay off in full?	Depends on interest rate; if below 7-10% (see item above), may be advantageous not to pay off early but rather invest instead; if higher than 10%, paying off as much as possible and avoiding only minimum monthly payments is good strategy. Getting rid of high-interest credit-card debt will free up future funds for long-term growth.
RESIDENCE Buy a home or rent?	Home likely to be highest lifetime expense; more affordable now than typically, with 30-year fixed mortgage rates in the 4-5% range (for most buyers, going with an adjustable-rate mortgage now is risky). However, renting may be (a) necessary, if funds for purchase are lacking, or (b) preferred in the interest of starting to build wealth early.
INSURANCE Buy health & life insurance now?	Health insurance a necessity, but often provided by employer; if not, compare widely-ranging policies and rates and determine best fit. Life insurance not a necessity, but cheapest for healthy young policyholders; often a good idea for married couples. Other insurance may be required or advisable—e.g., mortgage insurance, property insurance. Impact of being under-insured can be catastrophic; being over-insured wastes investable funds.

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A QUICK GUIDE TO INVESTMENT CHOICES BY GENERATION CONTINUED

ISSUES/CONSIDERATIONS	POTENTIAL IMPACT
GENERATION X *(BORN 1965-1980)*	
SAVING FOR EDUCATION Start a college fund? Which vehicle?	A key goal for most parents, with four-year college costs now averaging between $85,000 for in-state public and $185,000 forprivate—and going up fast. 529 Plans offer long-term tax-free growth and high aggregate contribution limits; UGMA/UTMA Accounts, Coverdell Accounts, and other options available; see our **Q2 2018 paper, *"Negotiating the Labyrinth of College Savings."***
ELDER CARE What if aging parents need help?	Can have major impact; early cooperative, family planning a necessity. Average 65-yr.-old can expect to spend $280K out-of-pocket for health care in retirement; median nursing-home cost approaching $90K/yr.[1] Long-term-care and critical-illness insurance available—cheaper when bought at a younger age; see our **Q4 2018 paper, *"Health Insurance in Retirement."*** No magic bullet, but balance needs to be struck between protection and funding other needs of older and younger generations.
RETIREMENT How to plan?	Ideally, retirement planning started earlier; if not, start at this life stage. Plan for a 30-year retirement, with rising longevity; plan to spend at least 70% of pre-retirement level, and possibly 100%; plan for poor markets going forward. Spending 4% of initial portfolio value increased annually by estimated inflation rate may work; 3% is a more conservative plan. A multitude of retirement vehicles available, but at a minimum, invest up to any employer match limit in a 401(k) or other plan.
BABY BOOMERS *(BORN 1946-1964)*	
RETIREMENT Too late to plan?	Planning should be complete or close to complete, but never too late to start—and always the right time to re-assess/modify. Spending level may prove to be too high, or low enough to be raised—always cautiously. Time to re-evaluate investments (a growth component in portfolio still important for most retirees) and any gifting strategies (see item below). Impact very high, since earned income no longer in the picture, only investment (and Social Security/pension) income. Understanding the complexities of Social Security also key to having funds when needed.
GIFT & ESTATE PLANNING What are the strategies?	High impact for Boomers with ample funds—and their families. Going with annual gifts up to the amount excluded from the gift tax (currently $15K/$30K for a married couple) good strategy if funds are available and immediate gifting is the goal; lifetime gift-tax exemption of $11.2 Mil./$22.4 Mil. Also available, but deducted from federal estate-tax exemption, so decision necessary between gifting during lifetime or as legacy. Philanthropic and/or family gifting via various trust vehicles. Estate planning not only for the very wealthy; issues may arise in moderate estates as well, and tax laws can change at any time, dramatically reducing exclusion and exemption amounts. Advice from attorney, tax professional, investment professional virtually a requirement.

[1]USA Today, April 20, 2018 and https://www.aarp.org/caregiving/financial-legal/info-2018/long-term-care-insurance-fd.html

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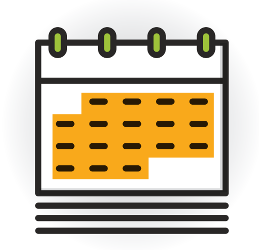

EVERY DAY COUNTS

Even for the most risk-averse investors, time in the market matters, not timing the market. No one is going to outfox the market in the short-term so keeping the focus on your long-term goals can help mitigate emotional feelings around market volatility and risk.

What Does Risk Mean to You?

For most investors, risk means the possibility of losing money—often over a short period such as a year or two. If that's your definition of risk, go with it, but be mindful that there are other types of risk that may prove to be more important to you. Broadly speaking, they fall under the category of not having the money you need when you need it.

Yes, that can easily happen to you in the short run if you're too heavily committed to stocks and the market takes a plunge at the wrong time. (By the way, one thing that really shouldn't be a choice for you: trying to time the market. Don't do it; most investors get it woefully wrong.) But longer-term, too much cash is likely to be the culprit. Your principal is always safe with cash, but cash typically earns little—often less than the inflation rate, so your money may well lose purchasing power over time: a real danger as you age. As investment expert and educator Paul Merriman put it, "Comfort is very gratifying. But in the long run, comfort always has a cost."

It's your choice: *In whichever way you think about risk, make sure you know whether you're reacting to risk rationally or emotionally—emotional decision-making is notoriously bad in investing—and what you're sacrificing in potential upside by buying more protection from the downside. A professional financial advisor can be extremely helpful here.*

How Diversified Should You Be?

One of the cardinal tenets of prudent investment is to own a portfolio diversified by asset type, geography (you don't want to miss out on opportunities abroad), investment style (bargain stocks or growthy stocks, for example?), and so forth. Different asset classes react to different catalysts, and hence have different patterns of return. This will give you a measure of protection from the vagaries of any one asset class.

It's your choice: *For most investors, diversification provides a solid advantage. However, sometimes it's not your choice. If you're a corporate executive, for example, you may be holding large ownership and/or options positions in your company's stock that you can't divest for a—potentially long—while. But there are prudent strategies for managing those concentrated positions and an advisor can help adjust your remaining portfolio around these concentrated positions.*

Don't Forget Uncle Sam

Paying taxes is distinctly not a choice. But when you pay and how much you pay are more in your control than you probably think. There are several elements at play: investing in tax-deferred accounts; being mindful of the tax consequences of trading in a taxable account; and using sophisticated trust, gifting, and estate-planning strategies to reduce tax liabilities.

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YOU'RE IN CONTROL

You can be heavily hands-on in structuring your investments, you can work closely with an advisor, or you can choose an in-between arrangement. There are pros and cons to any approach. **Whatever your initial intuition–and that counts for a lot–you probably should consider many options before deciding.**

It's your choice: *If you have alternatives, which tax-deferred vehicle(s) is/are best for you? (If you can invest in an account through your work that includes an employer match, always contribute at least up to the point of the match. It's free money—no choice is needed here.) Which assets should you emphasize in your taxable accounts, and which in your tax-deferred vehicles? Are you interested in municipal bonds, whose income is usually tax-free, at least if the bonds are issued in your home state and in some other locales?*

How Much Control Do You Want?

Tax is one area where you probably don't want to go it alone—but even there, you may choose to be in charge of your own strategies. In other areas, like choosing a portfolio allocation or deciding on a spending budget, you may want to do it yourself, though we don't recommend it for most investors. Or, as we discussed in our last white paper, *"Investment Advice: Lost in a Maze?,"* advisory services come in all flavors from robo to discretionary (meaning that your investments are largely at the manager's discretion, though typically you work with the manager in deciding on an asset allocation).

It's your choice: *You can be heavily hands-on in structuring your investments, you can work closely with an advisor, or you can choose an in-between arrangement. There are pros and cons to any approach: Whatever your initial intuition—and that counts for a lot—you probably should consider the full spectrum of options before deciding.*

The Bottom Line: Take-Home Lessons

Tax is one area where you probably don't want to go it alone—but even there, you may choose to be in charge of your own strategies. Whereas something like choosing a spending budget or making simple portfolio allocations might seem more doable.

1. **Investors almost always have multiple goals.**
   Strong investment plans are designed to achieve more than one objective—though investors may have to prioritize among them.

2. **Saving and investing are complementary rather than mutually exclusive.**
   Some commentators maintain that investors shouldn't invest until they save enough. In our view, saving is a subset of investing: Both are geared to building wealth, though saving takes priority if the investor cannot do both and meet her lifestyle needs.

3. **Making investment choices usually entails trade-offs, which, by definition, means that investors are forgoing some benefits in targeting others they judge more valuable.** That said, sometimes an alternative plan can provide an investor with all the benefits he seeks. And sometimes what looks like a choice is a false choice: In that case, an investor can meet her goals without having to choose at all.

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LIFE HAPPENS

As life evolves, so should your investment plans. **Quarterly and annual reviews of your circumstances as well as your portfolio will ensure that your plans are on track to continue to meet your goals.**

4. **Investors should review every major investment decision periodically, and certainly if their circumstances change. Investment plans are meant to evolve.**

5. **Seeking professional advice in making important investment decisions is usually a good idea;** most investors should not go the do-it-yourself route, particularly when substantial assets and complex goals are involved. Even most do-it-yourselfers shouldn't abandon the idea of seeking advisory counsel until they've looked into the option.

The bottom line: *We believe that any advisor should keep your needs at center stage, and offer enough investment choices and flexibility that you feel comfortable not only about meeting your goals but in staying invested when the markets get tough—which they inevitably do at some point. Emotional and faulty market-timing is probably the primary reason for investor failure. Good advice is what can save you from making that mistake.*

Where We Come In

People's United Advisors offers investment and financial advice customized to each client, drawing on its own expertise and the extensive resources of People's United Bank. Our Advisors work with an integrated team of financial professionals—and will be happy to work with your personal team as well. Our advisory goal is the same as yours: providing you with peace of mind about your financial future. That's our ultimate, and most satisfying, mission.

People's United Advisors can help provide the advice you're seeking.

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