Less Stress Investing

Evelyn Preston

By Evelyn Preston

As one ages, birthdays circle around with amazing swiftness and life speeds up. However, as much as my world's changed over the past 40+ years of my investing life, my main assets —mutual funds—have not.

I've added global and dividend producing funds to complement my large blue chip and small cap positions and weathered several "crashes." But through market and interest rate gyrations plus economic booms and busts, my mix of funds has continued to grow and prosper. In fact, their value continues to increase even as I live off their proceeds in retirement.

Question: *Over the years, when the stock market skyrockets, many experts propose moving to cash? What's the best way to play it safe —stay invested in a hot market or sell and wait in cash 'til things cool off?*

Answer: "Every time stocks reach record highs," writes Michael A. Pollock in the WSJ, "investors face a …difficult choice." Cutting market exposure may seem soothing but can turn aggravating if stocks continue rising while you're on the sidelines. The real question: are you timing the market (which no one's very good at), or accurately evaluating the companies and stocks (which the pros are probably better at.) My take: Since a management fee is part of the expenses of my mutual funds, I prefer to check the style, experience and long term record of the fund managers and then let them "do their thing." So far it's worked well most of the time.

Question: *Financial advisors and columnists constantly recommend diversification of stocks, bonds and mutual funds. How is that different from rebalancing?*

Answer: Diversifying among investment types/objectives—blue chip, global companies, dividend producers, income, etc. and investment styles—growth, value, a blend, as well as choosing large, mid and small cap investment size companies help avoid the "all eggs in one basket" problem.

Rebalancing refers to the amount or percentage of investment dollars in each category. Too many large American stocks? Sell some and buy income producing bonds. Financial planners push this differing percentage approach and veer toward more bonds as clients age, lowering their exposure to more volatile stocks.

I prefer middle of the road growth stocks (many holding some bonds, cash or paying increasing dividends), to the questionable safety and lower returns of set-income bonds. Value style funds (underpriced companies with room to grow), can chug along nicely with the continuing growth needed even in retirement—no high flyers or in-fashion industries necessary. Most important of all, pay attention to trading costs and taxes that may eat into gains, especially if rebalancing occurs in a non-retirement account.

Question: *I care deeply about the environment, vanishing species and depleting resources. I want my investments to reflect my values but I'm not a stock-picker. And it's hard to know which funds or fancy named conglomerates own what. Any advice?*

Answer: You can whittle down your choices via SRIs, socially responsible investments, such as Calvert, Acumen or Parnassus Funds. Beware, however, of more and more funds claiming the SRI fund title. Many charge extra high fees for "research" but really just use cursory overviews without in-depth looks at the products and practices of specific companies. Other caveats from WSJ experts: SRI's may be hard to diversify, screen and may routinely underperform. They suggest investing in a few low-cost funds and directly donating the money saved to personal causes.

Question: *What's the most important focus for retirees?*

Answer: Keep it simple unless you're super rich and can handle esoteric investment vehicles. Don't lose sight of long-term goals as there may be 20 to 40 years left during one's retirement. Especially monitor fees/costs which can drag down returns and avoid too much moving around. Studies predict that when emotions take over, people tend to buy high and sell low. Remember, that even if you're risk averse, some investment growth is needed to offset inflation and taxes.

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