Fred Dunbar
CLU®, ChFC®, RFC®, AIF®

We bring quality services to the shore, providing a "common sense" approach to pursuing our clients' financial goals for over thirty years.

Financial Planning* Asset Management* Investment Planning* Retirement Planning

COMMON CENTS PLANNING

1-800-647-0762
239 Baltimore Pike Glen Mills, PA • 6606 Central Ave. N. Sea Isle City, NJ
fdunbar@commoncentsplanning.com • www.commoncentsplanning.com

*Securities offered through Commonwealth Financial Network, Member FINRA/SIPC. *Advisory services offered through Planning Directions Inc., a Registered Investment Adviser, are separate and unrelated to Commonwealth.*

KEYS TO LONG-TERM INVESTING

By Fred Dunbar

As I write this on March 7, the world is in a panic over the coronavirus. I always try to look at the bright side of things, but sometimes it's difficult when the majority of the world seems to be panicking. Just two weeks ago, we gave a talk to the investment club at a local retirement home in Glen Mills, Pa., about successful long-term investing. We shared a slideshow presentation from J.P. Morgan Asset Management. We felt that it was the perfect time for this particular presentation given the current focus of the news and media.

Lesson 1, timing the stock market generally doesn't work. Looking back over the years and depending upon your age, you may remember Black Monday (1987), the dot-com bubble (2000), SARS (2003), or the Great Recession of 2008. As bleak as those times were, historically, the markets did recover. So, try to relax!

When we work with clients, we like to set up a SWAN (sleep well at night) portfolio, which is designed to meet your risk tolerance. By this I mean, regardless of the markets being up or down or what you hear on the news, you won't be set off into a panic, you won't be worrying about whether to sell or not, and you'll ultimately get better sleep. Your custom portfolio is designed to help you "sleep well at night."

There are several steps to successful long-term investing.

First, you should plan on living a long time. Even though you have no control over how long you will live, your financial plan should have you reach the age of 90 or older. If your plan is conservative, and it shows you still have assets at that age, chances are you will not run out of money. Part of the J.P. Morgan slideshow we presented mentioned the probability of reaching ages 80 and 90 based on someone who has lived to the age of 65. The probability of reaching age 80 is 63% for men and 73% for women, and the probability of reaching age 90 is 22% for men and 33% for women. When looking at data of couples, the likelihood of one person in the partnership living to age 90 is 48%. Does your financial plan take you into your 90s? Although it's easy to focus on the present, envision the long term with an established plan for your potential future.

Cash, although comforting, is not always king. During our recent presentation, we showed a slide depicting the income earned from a $100,000 investment in a 6-month CD compared to the income that same CD would need to generate in order to beat inflation. For the time period from 1986 through 2008, the income generated did beat inflation. An overweighting of cash was a staple for many retirees due to safety. Since 2009, however, the income generated from a 6-month CD has not beaten inflation. In the past 10 or so years, other types of assets have been more advantageous in generating more income. If all of your money was invested in cash, you may be feeling good in the short term, but in the long term you very may well be losing purchasing power.

Avoid emotional biases by having a plan and sticking to YOUR plan. Meeting with a financial adviser will help you discover your risk tolerance and set up a portfolio with your goals in mind. Different types of portfolios generate different returns as demonstrated in our presentation from J.P. Morgan Asset Management, which showed a 20-year annualized return by asset class for the time frame from 1998 through 2017. The S&P 500 returned 7.2% per year, and if you had a balanced moderate portfolio (60%

S&P 500 index and 40% invested in high-quality U.S. fixed income), the return would have been 6.4%. A capital preservation portfolio (40% S&P 500 index and 60% invested in high-quality U.S. fixed income) would have returned 6.1% over that same timeframe. These numbers represent individuals who were fully invested for that 20-year period and never wavered, which is a difficult thing for most investors. Comparatively, the average investor during that time had an annualized return of 2.6%, surpassing inflation (2.1%) by just 0.5%. It's very possible that emotions got in the way, reducing people to panic and sell. Having a predetermined plan and a SWAN portfolio could prevent those feelings for you.

Volatility is normal; don't let it derail your plan. If you look at how the markets behave at any given moment during a calendar year compared to how they finish out the year, it can be a completely different story. Our slide presentation from J.P. Morgan Asset Management showed the S&P 500 intra-year declines versus calendar year returns. In 1987, the S&P intra-year decline was 34%, but the S&P finished up 2% for the calendar year. In 2009, the S&P intra-year decline was 28%, but the S&P finished up 23% for the calendar year. Do you remember these times? I referenced them earlier in this article. Did you panic, or did you stick to your plan?

I feel that one of the most powerful messages we gave to our audience and also portrayed in J.P. Morgan Asset Management's slides is that staying invested matters. Looking at an example of the performance of a $10,000 investment from Jan. 4, 1999 to Dec. 31, 2018, the S&P 500 returned 5.62% if you were invested for the full period of time. If you missed just the best 10 days of the market, the return was only 2.01%. If you missed the best 20 days of the market, the return was minus-0.33%. Six of the best 10 days occurred within two weeks of the 10 worst days. During volatile times, the stock-market lows often result in emotional decision-making. Your portfolio may be down, but it only becomes a loss when you decide to sell. If you invest for the long term while managing volatility, it may result in a better retirement outcome.

Overall, your portfolio should be based on how much risk you are comfortable taking to meet your goals. Once you determine your risk tolerance, then the rest may take care of itself. You can't time the market. When the markets are going up, most investors don't rebalance their portfolios taking profit; they like to hold on to the securities that are performing well. One of the common questions that clients ask us is, why do you recommend selling part of an investment that is up? We do this to rebalance a portfolio. This also lets us take profit and invest in asset classes that have underperformed, which is as simple as selling some stocks and purchasing bonds. Conversely, if you sold when the markets were down, then it gets difficult for many investors to move from the sidelines (where it is safe) back to the market due to their own insecurities. If you stay invested for the long term, you may be happy with your performance.

Maybe instead of all this pessimism that is on the news 24/7, we just need "more cowbell." Do you remember the comedy sketch that aired on "Saturday Night Live" in 2000 that fictionalized the recording of "(Don't Fear) The Reaper" by Blue Oyster Cult? It featured Will Ferrell as the cowbell player and Christopher Walken as the music producer who kept telling the group it needed – you guessed it – more cowbell, much to the dismay of the rest of the group. Check it out, and maybe it'll put a smile on your face again during all of this volatility. Try to look for positives, in order to quell your concerns, in an effort to leave your portfolio alone.

Now that serenity has calmed the storm, go ahead, relax, and head to the beach.

Fred Dunbar, CLU®, ChFC®, RFC®, AIF®, is President of Planning Directions, Inc., a registered investment adviser, and Common Cents Planning, Inc. He also offers securities through Commonwealth Financial Network, member FINRA/SIPC. Advisory services offered through Planning Directions, and fixed insurance products and services offered by Common Cents Planning, are separate and unrelated to Commonwealth. Fred may be contacted at 800-647-0762, by e-mail at fdunbar@commoncentsplanning.com or by mail at 239 Baltimore Pike, Glen Mills, PA, 19342. He's always happy to meet with you "down the shore" at 6606 Central Avenue N. Sea Isle City, NJ. 08243.

All indices are unmanaged and investors cannot actually invest directly into an index. Unlike investments, indices do not incur management fees, charges, or expenses. Past performance does not guarantee future results.

S & P 500: The Standard & Poor's (S & P) 500 Index tracks the performance of 500 widely held, large-capitalization US stocks.