MONEY TALK

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Investment Illusions

Illusions

Illusion #1 - Volatility Must be Feared. Volatility should not be feared, it should be expected. The chief illusion in the instinctive aversion to volatility is that many investors forget that volatility represents the potential for gain as much as it represents the potential for loss. Some investors fail to remember that short-term volatility (whether it be a day, a week, a month or a year) is still short-term.

Illusion #2 - Investors Believe Fixed Investments are Risk Free. Every investment carries its own risk. Other types of risk (tax risk, inflation risk, longevity risk), besides volatility risk, can have a significant impact on an investor's financial goals.

Illusion #3 - Bulls and Bears are Predictable. Timing the market is impossible. The ability to predict the timing of Bulls—an up market, and Bears—a down market, is much harder than it looks. If timing the market were possible, every investor would be easily and outrageously rich! Rather than trying to "time the market," focus on **"time in the market,"** allowing your investment returns to compound year after year.

Illusion #4 - Investing in Winners is Easy. Past performance is never an indication of future performance. Chasing winners is a losing battle. Ignoring the cyclical nature of the market by looking in the rear-view-mirror is a common investor mistake.

Getting Beyond the Illusions

Don't go it Alone. While an investment advisor can help find suitable investments for your financial goals, he or she actually plays a more crucial role by acting as a counter to the market's mind games that can tempt even the most experienced investors.

Make a Plan. Make sure all the necessary components of a plan are accounted for, such as time horizon, specific dollar amounts and target dates for each financial goal, realistic assumed rates of return, income distribution plans that will last a lifetime, and estate planning to ensure maximum wealth transfer.

Asset Allocation. No one can predict the future, including how well a specific type of investment will perform from year-to-year. A well diversified portfolio, consisting of a variety of asset classes, can help provide more balanced returns.

Systematic Investing. A long-term systematic investment plan provides several advantages, some of which are psychological. First, it allows you to take advantage of the normal shifts in the market by purchasing more shares when the market is low and less when it is high. Secondly, it helps eliminate the stress and uncertainty of deciding when to invest. Thirdly, it strengthens your investment discipline by helping you maintain a long-term perspective. (*Continuous or periodic investment plans neither assure a profit nor protect against loss in a declining stock or bond market.)*

According to Einstein
"Compounding is the 8th Wonder of the World"

If you invested $12,000 each year, assuming an annual compounding rate of return at 8%, look at how rapidly your investment would grow.

YEAR	ANNUAL CONTRIBUTION	YEAR END VALUE COMPOUND @ 8%
1	$ 12,000	$ 12,960
2	12,000	26,957
3	12,000	42,073
4	12,000	58,399
5	12,000	76,031
6	12,000	95,074
7	12,000	115,640
8	12,000	137,851
9	12,000	161,839
10	12,000	187,746
11	12,000	215,726
12	12,000	245,944
13	12,000	278,579
14	12,000	313,825
15	12,000	351,891
16	12,000	393,003
17	12,000	437,403
18	12,000	485,355
19	12,000	537,144
20	12,000	593,075
21	12,000	653,481
22	12,000	718,720
23	12,000	789,177
24	12,000	865,271
25	12,000	947,453
26	12,000	1,036,209
27	12,000	1,132,066
28	12,000	1,235,591
29	12,000	1,347,399
30	$ 12,000	**$ 1,468,150**

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About Dixie Butler — she is a Certified Financial Planner, a Certified Divorce Financial Analyst, and is an Enrolled Agent, entitling her to practice before the IRS. She has been in the investment and financial industry for over 25 years.