FEBRUARY 15, 2024

A Beginner's Guide to Asset Allocation and Diversification

By Wealth Management by CommunityAmerica | Financial Planning, Investment Education

- Asset allocation is spreading your investments across different asset classes – equities (stocks), bonds, cash, so economic factors like inflation or interest rate hikes don't have a disproportionate impact on all your investments.
- Diversification is spreading your money across various investment types including stocks, mutual funds, bonds and more, so risk can be decreased in case one of the investments decreases in value.
- Diversification and asset allocation go hand-in-hand to potentially help maximize returns while minimizing risks over time.

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"Don't put all your eggs into one basket" can apply to many aspects of life from seeking admission to college, looking for a job or trying different ticket sources for tickets to a "must-attend" event. However, the phrase becomes especially important when you're investing for financial goals like buying a home, paying for college tuition or building a retirement nest egg.

Having the money you need to live the life you want now and well into the future requires maximizing returns, while taking on the appropriate amount of risk. It's challenging to get the returns you want for big-ticket goals such as a home, college or retirement without taking on some risk. Historically, the return on safer investments such as savings, money market accounts or even bonds have not surpassed inflation by much, while investments like stocks and mutual funds tend to outpace inflation. Risk is different for everyone, and you have to find the right balance of risk and reward for you.

Asset allocation and diversification are two approaches that can help you do both simultaneously.

Asset Allocation

Asset allocation is the process of figuring out how much to invest in different assets classes – equities, bonds, cash equivalents, real estate, commodities – based on three factors:

1. Time horizon – How much time do you have before you need the money for a goal such as paying for college or retirement? The more time you have, the more risk you can take in your investment portfolio. Conventional wisdom is that younger investors always have a longer time horizon and more mature investors have a shorter one, but that only accounts for age. However, the time horizon can also be contingent on where you are in your financial journey with respect to how much time you have to achieve each goal.

2. Risk tolerance – While your age and the value of your investment portfolio are part of the make-up of your risk tolerance, your emotions and overall comfort with taking on risk are also factors you need to consider.

3. Investment objectives – Ultimately, your objectives determine how much in returns you will need to grow enough money for each goal and how much risk you may need to take to get those returns. That's why it's important to identify and re-evaluate your objectives throughout your financial journey and develop a financial plan that includes your current financial needs as well as future goals.

Diversification

Diversification goes hand-in-hand with asset allocation. Once you've identified your appropriate asset allocation mix, you can diversity by simultaneously investing in different investment vehicles like stocks (equities), mutual funds, bonds and cash equivalents (money market accounts) rather than putting all your money into one investment. With this approach, if one of the investments decreases in value, your entire portfolio might not decrease with it.

Further diversification can be achieved by targeting different industries (e.g. technology, healthcare, energy, entertainment, etc.) or geographical regions (e.g. US, South America, Europe, Asia, etc.). Depending on the amount of research you want to do on your own, you can invest in individual stocks or use a professionally-managed pooled investment vehicle like Exchange Traded Funds (ETFs) or mutual funds.

Diversification and asset allocation can seem like a bit of a puzzle, but it's important to include both approaches in your financial plan. If you need help or want a second opinion on our investment strategy, seek professional guidance from an experienced Wealth Advisor. Wealth Management by CommunityAmerica is here to help regardless of where you are on your financial journey. Schedule a complimentary consultation with a Wealth Management by CommunityAmerica Wealth Advisor today.

FEBRUARY 19, 2024

Time, Not Timing: Staying the Course with Your Investments

By Wealth Management by CommunityAmerica | Investment Education, Financial Planning

- Achieving your long-term financial goals can take patience to allow investments to grow upon themselves through re-invested earnings and dividends.
- "Timing" when investments will rise or fall and selling and buying them based on predictions takes significant diligence and rigor and risks missing out on the potential best growth days of the investments.
- Consistent, steadfast time in the market has historically produced exponential growth.

"Buy low, sell high." This long-time investing mantra – which also applies to purchasing homes, antiques, art, baseball cards, and more - is obviously the ideal scenario to help make the most of your money. If only it were that simple.

The missing variable is "time;" when exactly to buy and when exactly to sell. This is referred to as "Timing the market," or "market timing," and is one of two common strategies investors use to make the most from their investments. The other strategy is referred to as "time in the market."

Timing the Market

Timing the stock market successfully requires predicting the best times to buy and sell stocks based on specific factors related to the investment itself, economic indicators, market trends and even emotion. The strategy requires much more active involvement, including diligent research and analysis of a range of variables that could impact the stock's value. Even if someone is extremely active and involved with their investments, it's considered a much riskier approach than "time in the market."

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Risks include:

- Predictions not panning out
- Selling an investment too soon only to miss out on days when the value increases
- Buying an investment thought to be at its low, only to see it slide further or not grow
- Missing out on dividends after an investment is sold
- Missing out on compounding of earnings and dividends by selling it
- Incurring transaction fees, commissions and taxes after selling

Time in the Market

Time in the market is generally considered a safer strategy for investors who seek long-term growth. It focuses on consistently investing over longer timeframes, and not selling the investments, regardless of the ups and downs of the market.

Investors who keep their investments in the market can capitalize on the fact that the stock market tends to deliver positive returns over extended timeframes. Investors can invest in diversified portfolios with a mix of stocks, bonds and mutual funds, and make periodic contributions without actively engaging in regular buying or selling. This allows them to benefit from compounded earnings and dividends, and dollar-cost averaging (consistently investing a constant dollar amount through all different market conditions - resulting in various purchase prices because you bought them at different times) because their money stays in the market and grows upon itself.

The S&P 500 grew by 24.4% in 2023.[1] If someone missed out on the 10 best days, they would have missed out on 18.3% of that growth. Let's illustrate this in real dollars if someone invested $10,000 on January 1, 2023.

Invested $10,000 on January 1, 2023	**Gave the $10,000 "time" in the S&P 500 for the entire year**	**Missed out on top 10 growth days of S&P 500 by "timing" the market**
Rate of Return	24.4%[1]	6.1%
Value at End of 2023	$12,440	$10,610

Staying in the market and letting earnings and dividends achieve compounded growth has historically produced more than a 10% return on investment in the history of the stock market.[2] Timing the market can increase risk of missing out on some of the best growth of the market.

At Wealth Management by CommunityAmerica, we aim to help you reach your financial goals. Remember that all investments involve risk, and it's crucial to align your investment goals and strategy with your risk tolerance, financial situation, and long-term objectives. Schedule a complimentary consultation with a Wealth Management by CommunityAmerica Wealth Advisor today.

FEBRUARY 21, 2024

Saving vs. Investing: What's the Difference?

By Wealth Management by CommunityAmerica | Savings, Investment Education

- Savings and investing sound like the same thing on the surface, but each can have significantly different impacts on your money, especially over time.
- Savings is generally useful to help you achieve near-term goals and includes little to no risk so you are guaranteed to have your money there when you need it.
- Investing is generally used to achieve longer-term goals and historically has produced better returns than savings but comes with added risk.

To save or to invest? Both are important habits to help you achieve your financial goals, but when you get into the details, the two terms are not as interchangeable as one might think.

The immediate differences to consider between saving and investing includes the time you have to achieve the goal and your risk tolerance for that specific amount of money. It's important to note that while you may have an overall high-risk tolerance, it can vary based on when you want to use different pools of money.

The table below illustrates the fundamental differences between saving vs. investing.

Factor	Saving	Investing
Time Horizon	Generally, savings is used for near-term goals for your money such as saving for emergencies, a car, vacation, down payment on a home	Generally, investing is used more for long-term goals such as saving for college or retirement. Some investments like 401ks and IRAs are specifically designed for retirement
Risk	Most savings instruments such as high-yield savings accounts, certificates of deposit (CDs), money market accounts have lower risk	Most investments like stocks, bonds, mutual funds, real estate, commodities have risk associated with them, especially in shorter time windows
Predictability	Savings instruments nearly always have a predictable return	Not predictable because returns are based on market fluctuations
Safety	Most savings instruments are insured and guaranteed up to $250,000 by the NCUA	Most investments have no guarantees
Accessibility	Most savings are easily accessible and easy to liquidate without penalty. Some CDs have maturity dates and penalties may be incurred if they are liquidated before that.	Most investments can be liquidated without penalty, but you may incur transaction fees and commissions. IRAs and 401ks are not accessible without penalty until age 59 1/2.
Returns	Savings grow through interest paid by the financial institution for depositing your money. Returns over the past 40 years have ranged from .025% to 8%.	The average return from the S&P 500 over the past 100 years is 10.53% annually.[1]

If you're seeking professional guidance from an experienced Wealth Advisor, Wealth Management by CommunityAmerica here to help you on your financial journey. Schedule a complimentary consultation with a Wealth Management by CommunityAmerica Wealth Advisor and they can help you find the right path.

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