SEVEN PRINCIPLES OF LONG-TERM INVESTING

Blue Oak Wealth Management

Hiding your money under a mattress, as an investment strategy, is probably not a good idea.

You put your money at all sorts of risk: fire, floods, forgetfulness. And besides, under your mattress is one of the first places thieves may go to look for your stash.

Despite the potential issues, a recent AARP survey revealed that millions of Americans aged 55+ simply stash sums of cash at home.[1]

Keeping a small amount of cash at home might be a good idea for emergencies. But in the long run, the idle-cash-under-the-mattress choice represents a role money shouldn't play in your life. Since money is obviously transactional in nature, it should be producing something for you. After all, you worked for it; it should return the favor.

Our marketplace economy provides ample opportunities for your money—and hiding it under the mattress is certainly not one of them.

LOOKING BACK.

So, what choices do you have to get your money to roll up its sleeves and do some heavy lifting on your behalf?

The short answer: *Investing*.

Some historians believe that investing officially began in Europe during the Renaissance.[2] However, early records show Babylonian King Hammurabi, who reigned from 1792 to 1750 BC, may have implemented the original investment principles in the Code of Hammurabi, a collection of 282 rules that governed commerce and instituted fines and punishment for civil infractions.[3]

Investing—in one variation or another—has been around since antiquity. It is a way of sowing one's wherewithal into society or the environment in the hopes of producing gain.

In a sense, even early humans adhered to the rudimentary principles of investing by planting seeds in soil for the expected multi-fold harvest of food: A few seeds judiciously planted in the earth are expected to generate provision and prosperity for entire families and communities.

LOOKING AT TODAY.

Investing enables us to put the fruits of our labors to work. It allows us the potential to build wealth for the future; possibly, for retirement. But despite the opportunities to invest and create savings for later years, 42% of Americans are expected to retire with less than $10,000 saved or invested.[4]

Here are two interesting facts about inflation and investing:

- *Inflation*

  Inflation, an overall rise in the cost of goods and services, sometimes seems like one of those afflictions of an era long since passed, existing now only in history textbooks. While it's true that double-digit inflation has been absent for the last 30 years or more, you may remember the high-inflation years of the 1970s.[5]

  An income of $50,000 today at an inflation rate of 3% would have a purchasing power of just over $32,000 in year 15—a 35% erosion. Said differently, to maintain an equivalent, desired lifestyle (provided by a $50,000 income, today), it would require a $77,900 income after 15 years of 3% inflation. This is a hypothetical example used for illustrative purposes only.

- *Investing*

  The decision to invest is an acknowledgment that investing comes with certain risks. Not all investments will do well, and some may lose money. However, without risk, there would be no opportunity to potentially earn the higher returns that may help you grow your wealth.

  To manage investment risk, consider maintaining a broad diversification of your investments that reflects your personal risk tolerance, time horizon, and the nature of your financial goals. And remember that diversification is an approach to help manage investment risk. It does not eliminate the risk of loss if security prices decline.

Take advantage of the financial market's potential.

Investing provides you the opportunity to pursue your financial goals and shape your own future.

HERE ARE SEVEN PRINCIPLES OF LONG-TERM INVESTING:

1. Allocate your assets.

Using asset allocation, investors divide their money among different asset classes, such as stocks, bonds, and cash alternatives, like money market accounts. These asset classes have different risk profiles and potential returns.[6]

The idea behind asset allocation is to offset any losses in one class with gains in another, and thus, reduce the overall risk of the portfolio. It's important to remember that asset allocation is an approach to help manage investment risk. It does not guarantee against investment loss.[7]

The most appropriate asset allocation will depend on an individual's situation. Among other considerations, it may be determined by two broad factors.

Time. Investors with longer timeframes may be comfortable with investments that offer higher potential returns, but also carry higher risk. A longer timeframe may allow individuals to ride out the market's ups and downs. An investor with a shorter timeframe may need to consider market volatility when evaluating various investment choices.

Risk tolerance. An investor with high risk tolerance may be more willing to accept greater market volatility in the pursuit of potential returns. An investor with a low risk tolerance may be willing to forgo some potential return in favor of investments that attempt to limit price swings.

2. Take advantage of opportunities.

Many investors make long-term investment decisions with one target in mind: **Building for retirement.**

One approach to long-term investing is taking advantage of employer-sponsored plans. Their deferment of federal taxes reduces employees' immediate annual taxable income. Some employers also make matching contributions to employer-sponsored plans. Employer contributions may be considered an incentive to enrolling in employer-sponsored plans.

Under the SECURE Act, in most circumstances, you must begin taking required minimum distributions from your 401(k) or other defined contribution plan in the year you turn 72. Withdrawals from your 401(k) or other defined contribution plans are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty.

3. Take the (appropriate) risk.

While risk is inevitable and integral to investing, one of the most important questions you should ask yourself is: **How much risk are you willing to accept?**

If you're in your 20s, you may have another four decades before you plan to retire. If you're in that age category, you may consider pursuing higher-risk investments that would weather the long-term market fluctuations.

However, if you're in your 60s and retirement is within sight, you may want to create a portfolio that has a lower risk profile.

4. Make regular contributions.

One way to potentially build wealth over the long haul is through consistent investing.

However, as with any long-term pursuit, investing requires consistency and discipline. By developing the habit of making regular deposits, your investment may grow over time.

Automatic investments allow you to do dollar-cost averaging, a way of purchasing investments over time. When prices are low, more shares are acquired; when prices are high, fewer shares are bought.

Keep in mind that dollar-cost averaging does not protect against a loss in a declining market or guarantee a profit in a rising market. Dollar-cost averaging is the process of investing a fixed amount of money in an investment vehicle at regular intervals (typically, monthly) for an extended period of time, regardless of price. Investors should evaluate their financial ability to continue making purchases through periods of declining and rising prices. The return and principal value of stock prices will fluctuate as market conditions change. Shares, when sold, may be worth more or less than their original cost.

5. Understand what you own.

You may not want to buy a car without understanding at least the basics about the make, the model, and how it performs. Buyers often test drive vehicles to determine if they're good fits and do other research.

The same principle applies to other areas of your life, such as health care and buying a home. Investing should be no different. You should consider having at least a basic understanding of the businesses in which you plan to invest.

Experts say that a good understanding of the businesses you choose may help you distinguish between the investment "noise" and meaningful information to help shape your decision making.

Still, understanding the basic components of your investments may help you feel more confident in your long-term approach. Doing your homework may help alleviate confusion and offset any possible missteps later.

"Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years."

- Warren Buffett, American business magnate and investor

6. Consider starting early .

You may have heard the mathematic explanations for investing early and often. Look at this one: You're 25; you invest $300 a month for the following 10 years. You generate a hypothetical 6% return on your investments. When you're 35, you'll have $50,298.

Let's up your monthly contribution to $600 for the next decade. You'll have $190,672.

Let's add another $600 per month ($1,200 total) to your investment savings for another 10 years. At 55, you'll have $542,656. Bump it up to $2,000 a month for another 10 years, and by the time you reach 65, you'll have more than $1.3 million.

The benefits of investing early become more apparent when you compare, in another example, the earnings of two people, both aged 20. The investment is generating a hypothetical 7% annual rate of return.

Eric Early invests $100 a month until he's 30. He doesn't contribute any more to his account until he's 60.

Linda Later begins investing in her account when she's 30. She puts in $100 a month for 30 years until she retires at 60.

Eric Early started early and invested a total of $12,000. Linda Later started later and invested a total of $36,000. At 60, Eric has $135,044. Linda has $121,288

If, however, Eric Early continued investing $100 a month at the hypothetical 7% rate until he turned 60, he would have $256,332.

The lesson: Invest early, and keep it up. Investors should evaluate their financial ability to continue making purchases through periods of declining and rising prices.

*These are hypothetical examples and not representative of any specific situation. Your results will vary. The hypothetical rates of return used do not reflect the deduction of fees and charges inherent to investing.

7. Manage your emotions.

Conventional wisdom warns against processing your investment decisions through an emotional filter. While that's good advice, it needs some elaboration.

Making investment decisions—from a sense of exuberance or panic—has the potential to set the stage for disaster, or in the absolute best-case scenario, missed opportunity.

The markets' occasional tumbles have sent many emotional investors into panic and quick exits.

The takeaway: It's often better to hang on for the ride than to jump ship based on emotional reactions to the "noise" from the media.

While detaching ourselves from our emotional or behavioral inclinations may be challenging, we can, at least, put them into context. This may give us the opportunity to prevent our emotions from shaping our biases.

Emotional biases may include overconfidence, lack of confidence, fear of risk, overreacting to the latest investment news, following the latest trends, reacting by instinct or gut feeling, investing based on personal attachment, overreacting based on past experiences, or ironically, stoically ignoring the emotions of investing.

Responsible, clearheaded investing and steady monitoring of the markets may help you pursue your long-term investment goals.

CONCLUSION

We hope you found this report educational and informative. You may incorporate the principles in this report into your retirement strategy to help pursue your investment goals.

Working with a financial professional may help equip you to find the solutions that may fit your retirement lifestyle.

Warm Regards,

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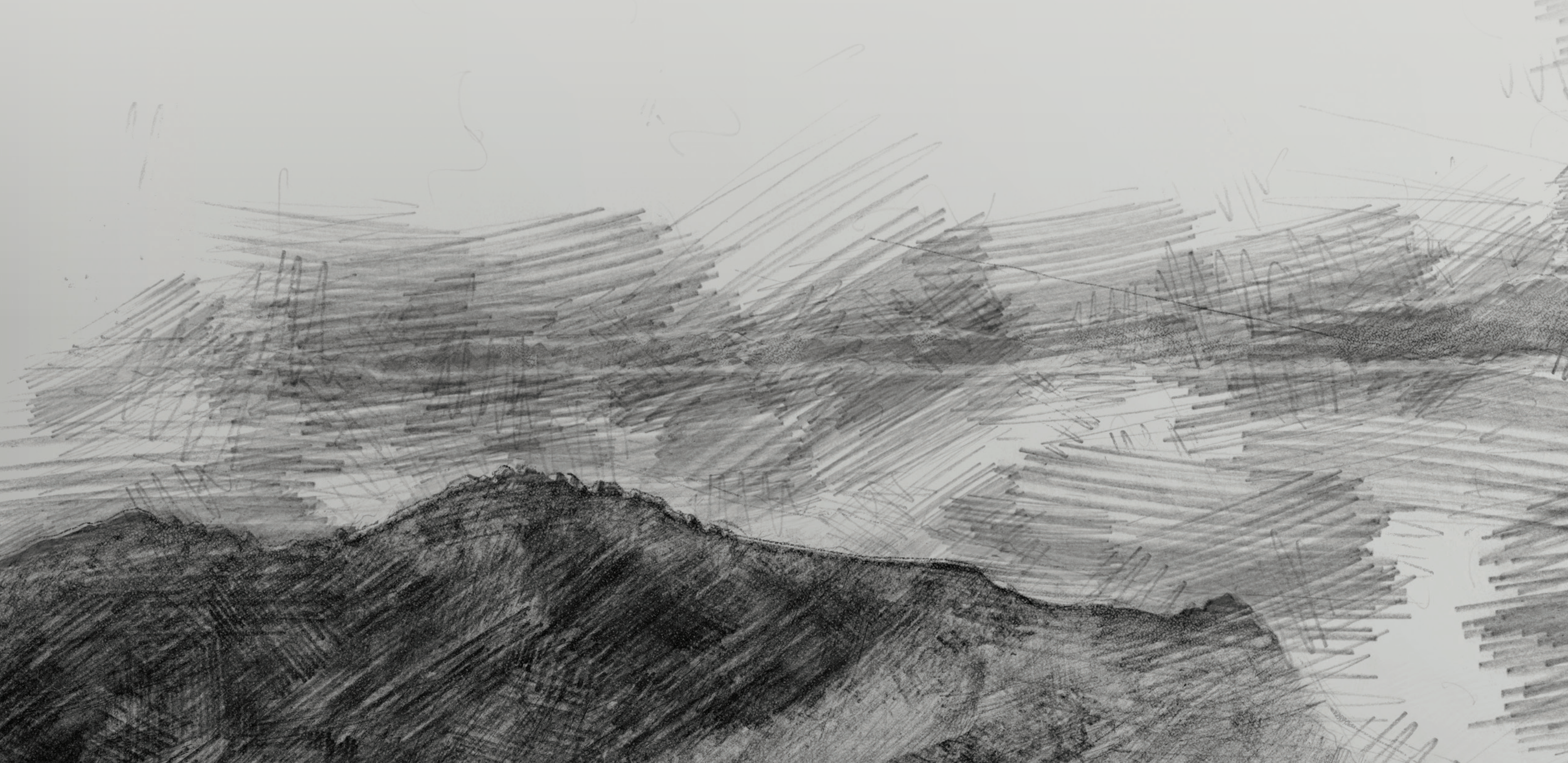

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[1] AARP.org, March 22, 2019

[2] Investopedia,com, 2019

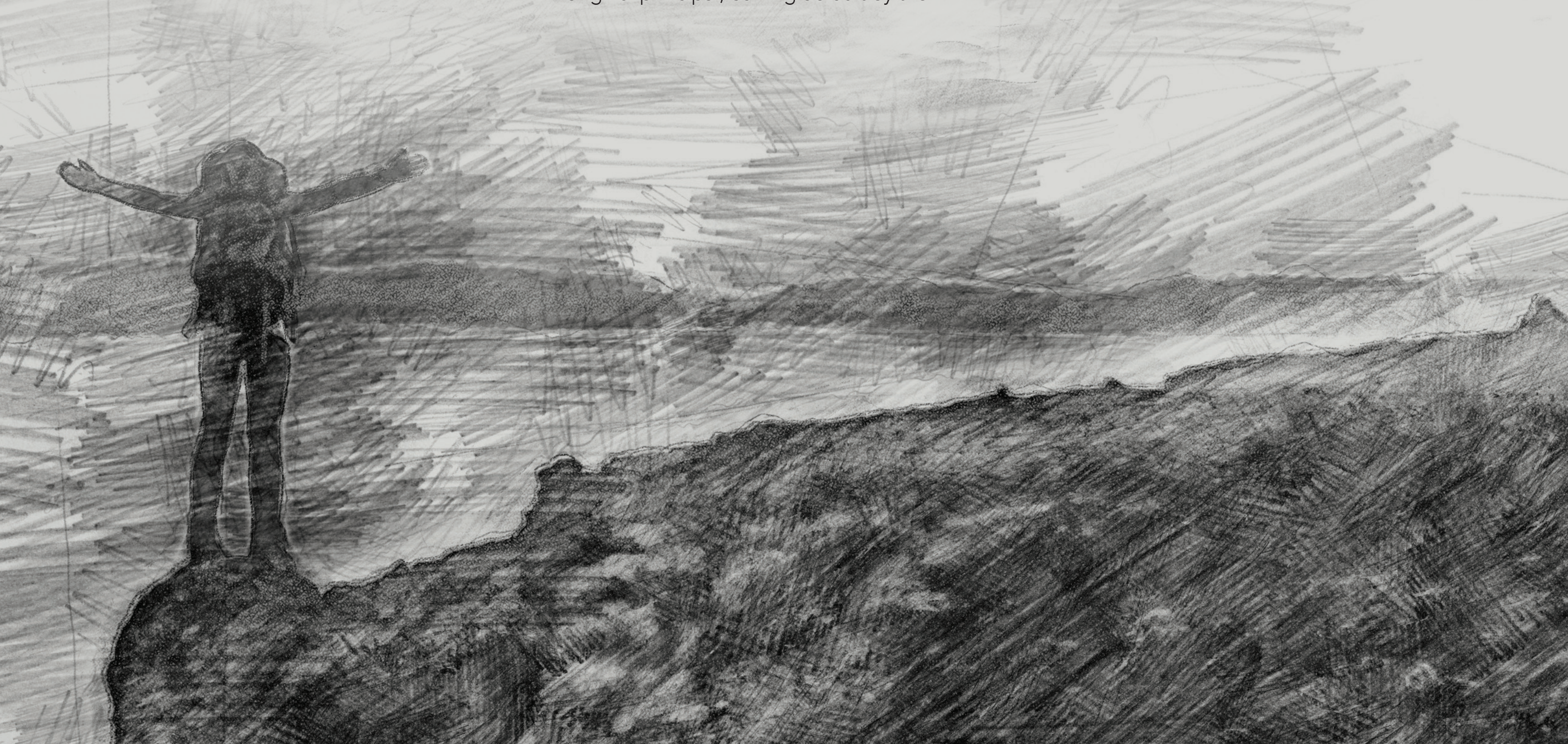
[3] History.com, 2019

[4] GoBankingRates.com, January 16, 2019

[5] InflationData.com, 2019

[6] The return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost. The market value of a bond will fluctuate with changes in interest rates. As rates fall, the value of existing bonds typically rises. If an investor sells a bond before maturity, it may be worth more or less that the initial purchase price. By holding a bond to maturity investors will receive the interest payments due plus their original principal, barring default by the issuer. Money market funds seek to preserve the value of your investment at $1.00 a share. Money held in money market funds is not insured or guaranteed by the FDIC or any other government agency. It's possible to lose *money by investing in a money market fund. Mutual funds are sold by prospectus. Please consider the charges, risks, expenses, and investment objectives carefully before investing. A prospectus containing this and other information about the investment company can be obtained from your financial professional. Read it carefully before you invest or send money.*

[7] Investments seeking to achieve higher potential returns also involve a higher degree of risk. Past performance does not guarantee future results. Actual results will vary.



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