Fall is in the air! Only a few weeks and another summer, one that was perfect for ducks and lawns, comes to a close. The arrival of fall is an excellent time to review the state of your investment, tax and general financial affairs especially if one is a snowbird heading south for the winter.

Your investment performance:

How have your investments performed recently? Don’t panic if they haven’t kept up with your expectations since all of the major indexes are in the red for 2008. As of July 31st the S&P 500 was down 12.5%, DJIA was down 12.8%, NASDAQ was down 11.9% and the international EAFE index was down 13.4%. While volatility and short-term losses can be a normal part of investing, the key measure is performance over longer time periods of 3, 5, or 10 years. If an investment’s returns have been consistently and significantly lower than a market index that tracks the same type of investment, it could be time to consider making a change.

Your investment mix:

Review how your portfolio is allocated across all of the major asset classes of cash, bonds, stocks and then into sub classes of U.S. small, mid and large cap stocks as well as international developed and emerging market stocks. Do the percentages you have invested in the different asset classes still match your original asset allocation? If you have a lot more – or less – in one asset class than you originally planned, you may want to rebalance your investments. Have you considered any new asset classes such as real estate, commodities or alternative investments? If new options are available, look at them carefully to see if they may be appropriate for your portfolio.

When you’re investing for retirement, you want a portfolio that will help you achieve your long-term financial objectives. Therefore, it is important to understand the advantages of both stocks and bonds.

Bonds are basically loans from investors to bond issuers for a set period of time. Corporations often issue bonds to raise money for expansion and other capital needs. The federal government and other governmental entities issue bonds to pay for day-to-day operations and special projects. Each bond has a set maturity date, i.e., the date the issuer agrees to return the bond’s face value to the investor. While a bond is outstanding, the issuer pays the investor interest on the loan, usually semiannually.

Bond prices vary depending on current market interest rates and other factors. When interest rates rise, the prices of existing bonds with higher rates tend to rise. Because they are more sensitive to interest rate changes, long-term bonds tend to be riskier – and pay higher interest rates – than shorter-term bonds.
To understand how bonds can help protect a portfolio, you need to understand the relationship between stocks and bonds. Stock and bond investments often react differently to changes in interest rates and shifts in the investment markets. A look at past performance shows that bonds have tended to perform well during years that stocks have performed poorly – and vice versa. By including both stock and bond investments in your portfolio, losses in one investment type may be offset by gains in the other. Keep in mind, however, that past performance is no guarantee of future results. It's possible that both the stock and bond markets could be up or down at the same time. Plus, diversification does not ensure profit or protect against loss in a declining market.

Your time horizon:

If retirement is still a long way off, including a significant allocation of stock investments in your portfolio can help you get more mileage since stocks have historically earned higher returns than less risky asset types, such as bond and cash equivalent investments. (Past performance doesn’t guarantee future results.)

On the other hand, if you’re nearing retirement or in retirement, you may want to consider downshifting into more conservative investments to reduce your exposure to risk. You may want to keep some stock investments in your portfolio – even after you retire – since they have the potential to produce inflation-beating returns. It is critically important to consider inflation, offset its impact and grow your purchasing power over time.

Your results:

Check your overall progress to see if your investments are on track and your long-term goals are within reach. Remember that short-term volatility and market declines are inevitable, but staying on course over the long-term is the key to planning for retirement as well as enjoying retirement. Take a moment now before the onset of winter to evaluate your strategy and results, then relax and enjoy the crisp air and snowflakes of the Upper Valley.

ABOUT THE AUTHOR

Dennis Mitchell has more than 30 years of wealth management experience. His tenure at Ledyard Financial Advisors began in 2008 as the organization’s Senior Vice President & Business Development Officer. Prior to joining Ledyard, Dennis was the Senior Vice President for Sales & Marketing for Northern Trust’s New England market. His other positions at Northern Trust include Northwest Regional President based in Seattle, Washington as well as Northern California President based in San Francisco, California. He began his banking career at Peoples Heritage Bank in Portland, Maine before moving to Key Bank in Portland as their Trust & Investment Sales Manager. Dennis received his B.S. in Business Administration from the University of Maine and his MBA from Husson College. He obtained his Certified Financial Planner (CFP®) designation in 1986.