Is Your Investment Strategy on Track?

One of the more attractive benefits of having a financial advisor is the client review process. A good financial advisor knows that an annual review for each of their clients is one of the best services they can provide. For our clients, we understand that meeting regularly to hold a discussion about real life values and providing a progress report on their financial goals is a key component of the value we bring. In addition, we know the ability to call us with questions and concerns at any time can always be helpful to our clients and fruitful towards achieving their financial goals.

The current and second strongest bull market in history passed its 8th year in March of 2017. Many investors wait until a pullback or a market correction to revisit their investment strategies. We meet with clients regularly because careful planning and a reality check is not just something to do when your investments are down. It is something you should do at least annually or whenever your goals and needs change.

A common question amongst investors is, "When is the best time to hold your regular annual investment strategy review?" A good rule of thumb to follow is to treat your investment review as you do your annual medical checkup: there is no one magical time, but it should be done regularly.

REVIEW YOUR RISK TOLERANCE

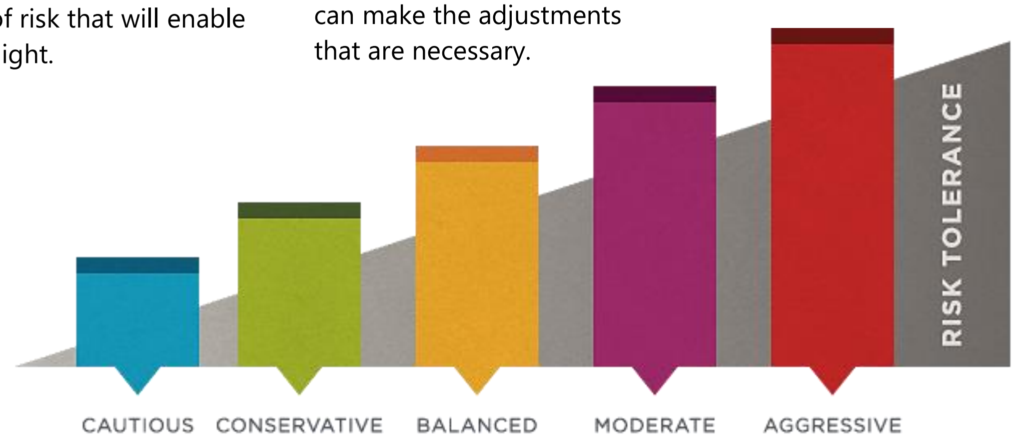
According to Investopedia, "Risk tolerance is the degree of variability in investment returns that an investor is willing to withstand." They go on to state, "You should have a realistic understanding of your ability and willingness to stomach large swings in the value of your investments; if you take on too much risk, you might panic and sell at the wrong time."

Essentially, Risk Tolerance is the level of risk that will enable you, the investor, to sleep soundly at night.

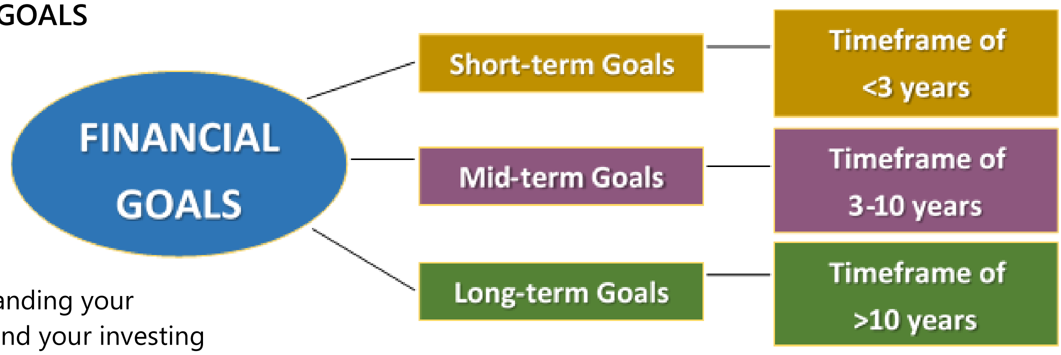
A recent study by Ameriprise reveals some interesting data points on U.S. investors and investment risk:

- Nearly 90% say they are "cautious" and many will pull funds out of a volatile market or invest only where returns seem guaranteed no matter how small.
- They view financial risk as "loss" (31%) or "uncertainty" (67%), rather than an opportunity.
- 58% are less likely than other people they know to make an investment for a high potential return at a high level of risk.
- 73% of risk avoiders lack financial plans, something that can be particularly important for them to have. A detailed financial plan can help ensure they are on track for retirement – and help alleviate some financial risks this approach has inadvertently created.

One of the fundamental guidelines for selecting investments is to understand your risk tolerance. Many times, this will dictate which investment choices are most appropriate for you. When your circumstances change, we can make the adjustments that are necessary.



REVIEW YOUR TIMEFRAMES FOR YOUR PRIMARY FINANCIAL GOALS



It's important to know the approximate timeframe of your primary financial goals. When you are investing for short-term goals, your choices can differ from investments you select for long-term goals. Through a process of establishing and understanding your timeframes, we can help you understand your investing possibilities. Your personal investment strategy could vary depending on how long you plan to have your money invested. Most investors try to categorize their primary goals into one of three main categories: short-term; medium-term; and long-term.

Short-Term Goals (Less than 3 years)

Typically, the shorter the time that you need to reach your goal, the less risk you generally want to take. Remember, this is money you've already accumulated to use for that goal and your investments should match that thought process. The money you have earmarked for short-term goals will need to be available relatively soon, so you might want to focus on safety and liquidity rather than more risk and growth. For your very short-term portfolio or funds you need to have available in one year or less, you might be more inclined to put your money into liquid areas, lower volatility investments or cash equivalent investments, which aren't likely to lose as much value in six months or a year. Liquid investments are those you can sell easily with little or no loss of value, including Treasury bills, money market accounts and funds, and other low-risk investments that pay interest. If those investments have maturity dates, the terms are very short. For example, Treasury bills have maturity dates of 13 or 26 weeks.

You also should consider alternatives that don't impose potential penalties or fees for accessing your money before a maturity date. For example, a 10-year CD might be safe, but the early withdrawal penalty is likely to cut into the money you are counting on for a short-term goal such as a tuition payment that's due next September.

Many of today's cash equivalent investments are paying lower interest rates that potentially would not be enough to outpace inflation over the long term. However, if your plan is to use the money relatively quickly, inflation shouldn't have a major impact on your purchasing power.

Mid-Term Goals (3 to 10 years)

Choosing the right investments for your mid-term goals can sometimes be even more complex than choosing them for short- or long-term goals. Your goal is to achieve the growth that can help you build your assets while still protecting the assets you've worked hard to accumulate. Mid-term goals are typically those for which you can allow some time to accumulate. The more time you have, or the more flexible your actual time frame is, the more risk you can possibly afford to consider with your investments. As the timeframe for those goals gets shorter, you can gradually move some of those assets into lower volatility investments.

Long-Term Goals (More than 10 years)

Long-term goals are the ones that can sometimes allow the most flexibility. For many people, a long-term goal is a financially secure retirement. It can also be a goal with a long-term horizon. When your goal is paying for a car, for example, you think in terms of paying costs up front or over a reasonable period of years. However, when you consider retirement and think in terms of managing your expenses, you may have to account for 20 or 30 years, or maybe even longer, of post-retirement living. Since you will need some income for that entire period, it is important to attempt to earn a rate of return that outpaces inflation and allows your initial investment to grow over that time. A general rule is that the more time that you have to reach a financial goal, the more investment risk you might be willing to take. For many investors, that means considering growth investments. As time passes, you can consider shifting your portfolio towards less volatile investments.

While past performance is no guarantee of future results, historical returns consistently show that a well-diversified equity portfolio can potentially be a rewarding investment over the long term. It's also true that over shorter periods — say less than 10 years — investing heavily in equities can lead to portfolio volatility and sometimes even to losses. According to finra.org, "Investors that have 15 years or more to meet your goals, you have a good chance of being able to ride out market downturns and watch short-term losses eventually be offset by future gains."

At Hughes Financial Services, we help our clients list and think about their major financial goals including:

- Buying a new car
- Buying a home
- Paying for children's education
- Saving for or living through retirement

Keep in mind that no goal stays short-, medium-, or long-term forever, and so the timetable for your financial goals will evolve over time. For example, retirement is typically a long-term goal when you're 30, but for many, it's a short-term goal when you're 60. An investor's methodology and choice of investments will need to be reviewed as they draw closer to the set goals.

Over time, your priorities or life circumstances can change, resulting in a delay of certain goals by a year or two or others you may want to try to meet sooner. And some, such as a second car or an expensive family trip, you may decide to forego altogether. It's important to stay flexible and adapt your timetable to your changing needs and priorities.

CONCLUSION: WHAT CAN I DO?

Investors are always concerned about the market. In light of the past year's market performance, it may be necessary to check your target investment asset mix to ensure that it continues to meet your timeframe, risk tolerance, needs, and preferences, and rebalance your portfolio.

Although the equity markets have performed reasonably well over the last few years, **CAUTION** is still the principal notion for investors. Unfortunately, safety comes with a price. On June 1, 2017, bankrate.com stated, "This week's survey showed money-market accounts, which are savings accounts that often pay higher rates than conventional savings accounts and come with limited check writing privileges, are paying an average of 0.12 percent interest annually. That's an increase of 1 basis point from last week and above the 52-week average of 0.11 percent. A basis point is one one-hundredth of one percentage point."

As for the rates on one-year certificates of deposit (CD's), on June 1, 2017, bankrate.com wrote, "This week the average interest rate on 1-year CDs rose to 0.35 percent, 1 basis point above where it was last week. That's higher than the 52-week average of 0.32 percent." Investors are not typically excited with interest rates that are less than 1%.

For many investors, these rates will not help them achieve their desired goals. Most investors attempt to build a plan that includes risk awareness. Many times, this can lead to safer but lower returns. Traditionally, bonds have been the de facto standard to hedge against market risk, but with bond values at historical highs, they no longer offer the kind of protection they once did and quite possibly pose a greater threat of loss than stocks. Investing is not about keeping pace with the market (who likes losing 40% during years like 2008?) or beating the market. Many times, it's all about hedging risk so your portfolio suits your individual needs regardless of market performance.

HAVE A STRATEGY

Investors need to be prepared. Market volatility should cause you to be concerned, but panic is not a plan. Market downturns do happen as do recoveries. This is the ideal time to ensure that you fully understand your time horizons, goals and risk tolerances. Looking at your entire picture can be a helpful exercise in determining a strategy appropriate for your personal situation.

FOCUS ON YOUR OWN PERSONAL OBJECTIVES

During confusing times, it's always wise to create realistic time horizons and return expectations and to adjust your investments accordingly. Understanding your personal commitments and categorizing your investments into near-term, short-term and longer-term can be helpful.

MAKE SURE YOU ARE COMFORTABLE WITH YOUR INVESTMENTS

Equity markets will continue to move up and down. Even if your time horizons are long, you could see some short-term downward movements in your portfolios. Rather than focusing on the turbulence, you might want to make sure your investing plan is centered on your personal goals and timelines. Peaks and valleys have always been a part of financial markets and is a trend that will continue.

News breaks on companies and the markets every day, but not every story should cause long-term investors to sweat. Yet, fund research firm, Morningstar, finds that many investors have self-defeating behavior and will continue to buy and sell funds at precisely the wrong times.

DISCUSS ANY CONCERNS WITH US – AT ANY TIME

Our advice is not like a one-size-fits-all T-shirt. We will always consider your feelings about risk and the markets and review your unique financial situation when making recommendations. If you need to talk to us before your next review, please call us. We're here for you.

A good financial advisor should help make your financial planning journey easier. Our goal at HFS is to understand your specific goals and dreams and then offer direction and strategies to help get you there. While we cannot control financial markets or interest rates, we do keep a watchful eye on economic, tax and investment issues, continually monitoring your portfolio, and consistently communicating with you in a way that's simple, streamlined and easy to understand. One of our primary objectives is to take the emotions out of investing for clients. We can discuss your specific situation at your next review meeting or you can call to schedule an appointment anytime. As always, we appreciate the opportunity to work with you in addressing your financial matters.

HUGHES | FINANCIAL SERVICES, LLC

Hughes Financial Services, LLC, is an independent Registered Investment Advisor (RIA) working closely with individuals and families to provide direction and strategies on how to financially achieve their specific goals and dreams.

We are a fee-only firm that seeks to adhere to the highest fiduciary standards and provide clients with advice that is truly unbiased and has only our clients' best interests in mind.

We offer our clients a wealth of comprehensive financial planning expertise in the following areas:

- retirement planning
- estate planning
- investment management
- risk management
- insurance
- education planning

The financial advisors at Hughes Financial Services hold a variety of professional designations and certifications and are well-versed in a number of financial disciplines. We proudly specialize in helping employees and retirees of local government and school systems with their retirement options. Our combined education and experience allows us to offer you independent financial advice and solutions that we are proud to provide.

Hughes Financial Services, LLC, is located in Herndon, Virginia (Fairfax County).

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