

What You Should Ask About Your Investments

Robert J. Mintz

With the markets bouncing around and the stock market mostly down, clients are expressing concern about the safety of their investments and the performance of their financial advisors. “Why am I paying this guy 1% a year to lose my money? I could do that myself for free.” That’s the question my friend Fred asked and it got me thinking about “investment experts” and what we expect them to do for us. How do we get the best advice out there and what can we decide for ourselves?

Asking the Right Questions

For many people the primary goal of their financial planning is to get a feeling of control over what they have and a sense of security about what will happen in the future. Maybe by knowing the key issues and the right questions you will have the confidence to handle your own financial matters. Or, if you don’t have the time or the interest, at least you should know what your investment advisor is doing and whether your plans are on the right track.

What is the total amount of savings you have now and how is it invested? That seems simple enough but accounts may be scattered at different banks or brokerage firms and may include regular savings accounts, IRA’s, Roth IRA’s, 401K’s and/or other savings plans. Some of these plans may be current or may have been abandoned for years and too many people don’t have a clear idea of what or why they have all these accounts. A good place to start is to develop a simple list with the location and purpose of each account. Then add the amount of each investment, including amounts in CD’s, mutual funds and stocks. This will show you the exact percentage of each investment in your portfolio and can serve as the basis for your overall strategy.

What is your annual return from your investments? Look at your percentage of annual growth over the past few years to see how you are doing. That means taking the increase in value of the total portfolio during a year, divided by the starting amount. An account that grows from \$75,000 to \$100,000 has a basic return of $\$25,000/\$75,000$ or 33%. This sounds straightforward but it is often complicated by contributions and withdrawals that you have made. For example, if you started with a \$100,000 investment in the year 2000 and at the end of 2008 you have \$200,000 that’s \$100,000 gain over 8 years - roughly 9% per year. But how do you calculate your annual return if you contributed an additional \$30,000 to your savings in 2005 and 2006? You may need to use a calculator

or a software program such as Excel to help you. Your investment advisor may be able to make these calculations for you and should certainly keep you up to date, monthly or quarterly with a specific performance number on an ongoing basis.

How do your returns compare with current returns on similar investments? This can be seen most easily in your stock portfolio which can be compared to the performance of the market as a whole. If your stocks have produced a return of 4% for the year, compare that to a large index such as the S&P 500 which grew by 5.5% for the same period. If your stock portfolio underperformed the overall market or even if your stocks did much better than average, that's valuable information for you.

Are you paying too much in fees and commissions. Most experts now agree that no individual investor, regardless of his or her level of expertise, can outperform the market averages over a period of time (See, e.g. *A Random Walk Down Wall Street*, by [Burton Malkiel](#)) The warning on every mutual fund advertisement that "Past performance is no guarantee future results" dramatically understates the case. Not only is it not a "guarantee" it is not even a relevant indicator, according to the experts, Funds which perform well in one year are no more likely than any other fund to repeat that performance in any subsequent year. For example, in January 2008 you sell your old investments and buy the five highest performing funds of 2007. The evidence is pretty convincing that you are no more likely to produce good returns than you would by throwing darts at a list of every fund. And if this is really true then it follows that paying for stock picking advice, timing the market and paying sales commissions and management fees will substantially reduce your annual returns over your investing lifespan.

How much risk should you accept? Buying one stock or fund which moves step by step with the market average is guaranteed to provide the same overall return as the market itself. (DIA and SPY are index stocks which track the Dow Jones Industrial Average and the S&P 500, respectively). And the annual fees are usually 70% less than what stock picking funds or advisors charge. Under this approach, your only issue is to determine how much exposure to the stock market you want in your portfolio. Half stock and half bonds? As we've seen, the market can produce very large swings up and down and risk of loss is real and should not be underestimated. Many experts advocate reducing the percentage of stocks in your portfolio as you get closer to needing a fixed amount for a specific purpose such as college costs or retirement income.

Conclusion

We've stated all these issues briefly and generally and there is certainly much more to say and think about in your investment planning. But asking yourself or your advisor these questions and others you develop may help you understand where you are now and how you can accomplish your future savings goals.

Robert J. Mintz, J.D., is an attorney and the author of the book *Asset Protection for Physicians and High-Risk Business Owners*. To receive a complimentary copy of the book call 800-223-4291 or visit www.rjmintz.com