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Financial Briefs

MAY 2022

6 Myths about Stock Investing

When it comes to investing in stocks, there's a lot of misinformation. Those myths can lead to confusion about whether investing in stocks is really safe, how much money you can make with stock investments, and even whether it is something the average investor can participate in.

The truth is that investing in stocks can be one way to put yourself on the path to a secure financial future. Before you get started, it's important to review six of the biggest myths about investing in equities.

Myth #1: Investing in Stocks Is Like Gambling

People often liken stock investing to gambling, but that's not really a fair comparison. Yes, there's risk involved with buying stocks — and you should be highly skeptical of anyone who tries to sell you on risk-free investment opportunities of any kind. But the risk that comes with buying stocks isn't the same as that which comes with gambling.

When you buy stock, you are buying something: a share of a publicly traded company. You make money if you make a wise, informed purchase (i.e., you do your research and purchase stock in a company that does well). In gambling, the odds are always stacked against you; eventually, the house will win. And you usually have just one chance to make money when gambling. If you buy a stock whose value later dips, you can sit tight and wait for it to rise in price again.

Myth #2: You Have to Trade a Lot to Make Money in Stocks

Not necessarily. In fact, some top investors, like Warren Buffett, advocate trading very little if you hope to make money in the stock market. Trading frequently can cost a lot of money, since you'll incur trading fees and have to pay capital gains taxes on any profits. You can make money in stocks by carefully selecting solid stocks and trading only when necessary (for example, to rebalance your portfolio). This set it and forget it approach to investing works well for many people — and has the added benefit of involving less stress and less work for you.

Myth #3: Stock Investing Is Just for Rich People

Think your typical stock investor looks like a Wall Street banker? That's a popular stereotype, but it's not a realistic one. People from all walks of life invest in stocks. Millions of Americans are invested in stocks through the mutual funds they own in a 401(k) plan or other investment accounts. And with the increasing availability of low-cost, online investing tools, you don't need to have millions to invest in stocks.

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To Buy or Not to Buy

If you've been investing for years without a defined strategy, it's never too late to define your strategy and align your portfolio accordingly. Or perhaps you have a strategy that needs some dusting off. Maybe it's simply time to sit down and realign your portfolio with your investment strategy. After all, the markets aren't static; your portfolio shouldn't be either.

Whether you're investing for the first time or buying new stocks to augment your current portfolio, there are five important questions to ask yourself:

1. What's my objective? Is your ideal stock one that pays a high dividend or one that doesn't pay dividends at all, but has a high rate of growth? Is it a stock with relatively little price volatility but lower potential gains, or one with a lot of potential risk and higher potential rewards?

How you answer those questions — and the stocks you choose

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6 Myths

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Myth #4: You Can Time the Market

Novice investors may think it's possible to time the market. In other words, they believe they can watch for signs and always buy when the market is at its lowest point and sell when it's at its peak. In reality, few of us have a crystal ball. You might get lucky sometimes, but pure market timers usually end up losing more money than they make. Few individuals are able to consistently and accurately predict what the market is going to do over the long term. Plus, emotions tend to get in the way when most of us invest, causing us to make rash decisions driven more by fear or greed than logic. Instead, many professionals recommend developing a long-term, consistent strategy and investing with that in mind, rather than attempting to get out in front of the market's swings.

Myth #5: A Stock That's Done Well in the Past Will Do Well in the Future

There's a reason that investing materials come with a disclosure: Past performance is no guarantee of future results. Even once-hot stocks can eventually tank. Remember companies like Kodak and Bethlehem Steel? Stock in these businesses once seemed like an ultra-safe investment to many, but the world changed and these companies flailed. Or, investors may suddenly sour on a stock that's enjoyed a nice run-up in value and then its share price plummets. That's not a reason to avoid stocks entirely, but it is a reason to pay attention to overall trends in the market and not get too caught up in the excitement over a particular company or industry.

Myth #6: I Watch a Lot of Financial News. I Can Pick Stocks with the Best of Them.

Everyone else is watching those same financial shows, so you're not getting any special knowledge or information that way. Financial markets are actually quite complex. That's why many people choose to work with financial professionals when investing, relying on their knowledge and expertise to help them make investment decisions.

Please call if you'd like to discuss stock investing myths in more detail.

How to Select Stocks

When it comes to choosing the stocks that you'll invest in, how do you choose? Here, we outline four critical steps.

1. Know what's available. There are quite a few different stock sub-classes, each with a different performance history and risk profile. They include (but are not limited to):

- *Blue chips* — Blue chips are normally well-known companies that have long histories of solid performance. Compared to other stocks, blue chips are relatively low-risk and often pay dividends.
- *Growth stocks* — Growth companies sell stocks to fund their growth. When they take off, they tend to rise quickly. But because they haven't proven a history of solid performance, they also pose more risk.
- *Income stocks* — Income stocks may include public utilities or blue chip companies. Though they don't typically rise in value very quickly, income stocks do typically pay substantial dividends.
- *Penny stocks* — Penny stocks trade at a relatively low price and small market capitalization. They are typically not sold on the major stock exchanges. As such, they are typically considered highly speculative (high risk).
- *International stocks* — International stocks are stocks in foreign companies. Some are household names in the U.S., with stocks traded on U.S. exchanges. Others are less well known and are focused on their domestic markets. With international stocks, risk comes from the usual places as well as from the economic and political environments in their home countries.

2. Know what you already own. If you already own a lot of income stocks, you might want to look at blue chips. On the other hand, if you have a bunch of blue chips, you may want to look at growth stocks. Remember, diversification is key: Your portfolio should be well-balanced across asset classes as well as among different types of equities.

3. Know your risk tolerance. Your stock choices should depend heavily on your risk tolerance. If you are a conservative investor, blue chips or income stocks may be the way to go. If you are comfortable with a higher level of risk, you may choose international stocks or growth stocks. No matter what your risk tolerance is, owning shares across stock classes is important for diversification; furthermore, it's typically essential to meet your goals (most investors cannot earn high enough returns on conservative stocks alone to meet goals).

4. Articulate your goal(s). What you're looking to do with your money should be a driving force in your stock investment choices. If your goal is to retire at 65 and you're already 45 with little invested, you will need to invest more in high-growth stocks to generate the returns you'll need to meet your goals. If, on the other hand, you are 60, plan to retire in five years, and already have your nest egg accumulated, you may choose lower-risk, dividend-paying stocks such as income or blue chip stocks.

Once you've taken these four steps, you're well prepared to choose the stocks that make the most sense for you. Please call if you'd like to discuss this in more detail.

To Buy or Not to Buy

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— depends on your objectives. If capital preservation is your goal, for example, a lower-risk stock is probably your best bet. On the other hand, if you're young and growth is your target, a higher-risk, higher potential return stock may be the right one for you. Whatever your objective, defining that goal is the first step to selecting stocks for your portfolio.

2. Is my portfolio diversified? When considering which stock to purchase, determine whether you need to target your investment in certain areas to balance out your diversification.

Diversification is the single most important factor in managing the risks of a stock portfolio. You should be sure that your portfolio isn't concentrated in just one industry, but spread out over at least four or five. And there are other dimensions to consider as well: cap weighting (large-, mid-, and small-cap), style (value or growth), and geography (U.S.-based, developed foreign markets, and emerging markets).

The benefit of diversification is that the up and down movements of different asset subclasses are not completely correlated, so that over time losses in one industry or subclass may be offset by gains (or lesser losses) in another.

3. What's my expected holding period? If you're looking to speculate or trade for fast gains, your expected holding period is short. In that case, you need to be sure you are timing your purchase so you're getting in near the beginning of an upswing, not the end of one.

If you are buying for the long term, on the other hand, the price you pay is less critical, as long as you don't purchase a stock in the early stages of a steep decline in value.

4. What's the prevailing market trend? Recently, the market was so strong that almost any stock you bought was likely to go up in value. But in a trendless or bear (declining) market, it's a lot harder to find a winner, at least in the short and intermediate terms. That's because the majority of stocks move in the same direction as the market, no matter how fundamentally strong a stock may be.

5. At the current price, would I be paying too much? To answer this question, you'll have to consider some basic fundamentals.

First, look at the stock's price/earnings (P/E) ratio, which is its price per share divided by earnings per share. How does it compare to the stock's normal range, and how does it compare to its direct competitors? If the P/E ratio is high, maybe the stock is overpriced. On the other hand, if it's low, it could either be a bargain or an indication of a fundamental weakness.

In addition to the P/E ratio, you should examine the stock's past and future earnings growth rate. Then look at its price/earnings growth ratio (PEG ratio). The PEG ratio compares the stock's P/E ratio to its five-year projected earnings growth rate. A PEG ratio of 1 to 1.5 is typically considered normal. A PEG of 2.0 or higher is often a sign that a stock is overpriced, while a PEG below 1.0 may be an indication that the stock is a good bargain.

Even the most seasoned investor, one who's comfortable with the five factors to consider when evaluating a stock, can benefit from the objective advice of a professional. As hard as we try, it's difficult to avoid getting emotionally tied up in our investments. Please call if you'd like help reviewing your stock investments.

How You Can Use P/E Ratios

The price/earnings (P/E) ratio is the price you pay for $1 of a company's earnings. For example, if a company reports basic or diluted earnings of $2 per share and the stock is selling for $20 per share, the P/E ratio is 10 ($20 per share divided by $2 of earnings per share).

To understand what a P/E ratio represents, consider what it means in terms of how much you would pay for a business you want to purchase. The value of that business would be largely determined by how much income it generates and how long it would take to recover the purchase price with that income. You might be willing to pay four or five times earnings (for a P/E ratio of 4 or 5), realizing it would take that many years to recover the purchase price.

This ratio helps you determine if a stock is over or undervalued, helps compare companies in the same industry, and helps to compare the return you are actually earning from the company compared to other investments, such as bonds or real estate.

Here's how it works. Both company A and B are selling for $50 per share. Company A has reported earnings of $10 per share and Company B has reported earnings of $20 per share. Company A's P/E ratio is 5, while Company B's is 2.5. Company B is cheaper and is providing twice the earning power because for the same share price, an investor is getting $20 of earnings as opposed to $10 of earnings.

There are also variances in P/E ratios by industry, because there are different expectations for different types of business.

The bottom line is you have to do your homework. If you want to buy a stock because it has an attractive P/E ratio, make sure you know why. It may be a great stock to purchase and is just undervalued, but be aware if the company is losing business or is poorly managed. It may also be that the entire industry is weak. Don't buy a stock just because it's cheap. Many investors also use the price/earnings growth ratio, also known as the PEG ratio, because it also factors in the growth rate of a company.

Please call if you'd like to discuss P/E ratios.

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News and Announcements

From the Flinton Household

"Where flowers bloom, so does hope."
~ Lady Bird Johnson

The crazy, hazy, lazy days of summer are almost upon us, and it can't come fast enough. It has been a fantastic school year, and the girls are excited about what next year will hold. Samantha will be off to middle school, and Emerson is looking forward to ruling the roost in 4th grade for sure. Both girls are wrapping up another year of dance, and we are looking forward to unplugging, figuratively and literally, this summer. We will keep activities at bay as we are being intentional about how we spend our time. We are thinking about a throw-back summer to the '80's with the girls; think drive in movies, roller skating, a lack of technology, you get the picture. After a 2 ½ year pause, we were able to enjoy a wonderful week in Los Cabos for Spring Break and were reminded of the importance of finding time away, together. This trip was full of nothing but relaxing by the pools, napping at every turn, and enjoying wonderful food while watching whales and dolphins dot the crystal blue horizon. Although there are a few things planned for this summer, we are most looking forward to the ability to have dinners nightly as a family, go on our usual walks and bike rides, and having enough freedom in our days that Samantha and Emerson can reach that ever unattainable state; boredom. Wishing you and your family a wonderful Spring.

Andrew Flinton, CFP®

From the Alexander Household

All phases of life deserve dignity but, all too often, the final stages contain more confusion and chaos than meaningful conversations and thoughtful goodbyes. After experiencing several goodbyes in 2021, including my father, mother-in-law and a treasured uncle, I reflected on what worked and what I would do differently.

What I've learned:

- Thoughtfully plan for the future, but review your plan regularly. Circumstances change and you will need to be flexible.
- Talk to your loved ones about their choices. Use the Five Wishes checklist below from **www.FiveWishes.org.**
- There are resources available to address almost any situation. Ask for help.
- Hospice can be a tremendous resource in the final phase of life. Ask doctors and friends for recommendations.

Checklist:

- Start conversations with loved ones to determine what they want before it is necessary. The Conversation Project offers useful "starter kits" to begin the discussion, including one for those suffering from dementia. **TheConversationProject.org**
- Utilize Five Wishes, a living will that addresses personal, emotional, spiritual and medical concerns. (**FiveWishes.org**; $15/person online or $5 for a paper copy)
- Draft your obituary, and those for loved ones, especially older ones if you will be responsible for theirs. Provide copies to family and your funeral home
- Make certain the estate planning documents are current and will achieve their goals
- Prepare an advance directive and designate a health care proxy. You can find advance directive forms for each state at Caring Info, a program of National Hospice and Palliative Care Organization. (**CaringInfo.org/planning/advance-directives**)
- Make arrangements for the funeral service and end-of-life preparations. Provide information to family
- Make a list of assets and where to find documents
- Research independent, assisted living and nursing facilities in your area, in case you need them. In my experience, people who make the decision of where they want to live are happier than those who have the decision made for them.
- Organize items that need to be kept; discard or shred those that do not. Minimize clutter.
- Make amends when appropriate (remembering that the attempt is the only part that is within your control)
- Think about what you have not yet done that is important to you, and start making plans to do it now.

Making time to discuss your loved ones' wishes with them, and discussing your wishes with those who will help with your planning, can provide clarity and order for truly meaningful experiences, heartfelt conversations and thoughtful goodbyes.

Carol Ringrose Alexander, CFP®, AIF®, CEPS, RLP®, CDFA™

From the Rudy Household

As the school year winds down, our family has something extra to celebrate. Our middle daughter, Megan, will be graduating from high school. Our oldest daughter graduated in 2020, but the events of her senior year happened much differently than events for the Class of 2022. In addition to end of year exams and final projects, Megan has a full calendar of events to commemorate her senior year. She has prom, visits to her old elementary & middle schools, an end-of-year banquet, baccalaureate, senior field day, and the official graduation ceremony. We're so proud of Megan and all that she's achieved in high school. She is a smart, witty, caring, young woman with a bright future ahead of her as she heads off to OU in the fall. We're glad that she gets to celebrate with friends and family at all of these events.

Along with Megan's graduation, I am finishing up my final month serving on the school board. Coincidently, my last responsibility as a trustee is attending Megan's graduation ceremony. Not many parents have the opportunity to present their child with their high school diploma. Megan may not like the extra attention, but that's okay. I'm honored and thrilled that I get to give her both a handshake and a hug on the graduation stage.

Chad Rudy, CFP®

Our CEO, Randy L. Thurman's book ***The All-Weather Retirement Portfolio*** has been released by ForbesBooks. If you would like a complimentary, signed copy, please visit: **https://bit.ly/ForbesBookRT**