Wednesday, July 29, 2020

Fundamental Concepts for New Investors

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But take heart. Becoming familiar with a few basic concepts could help you have more confidence in your investing decisions. So don't be intimidated by complicated-sounding jargon, and don't hesitate to ask questions—after all, this is your money.

Understand Your Investment Options

There is a direct relationship between investment risk and return. Higher-risk investments (such as stocks) will generally offer the potential for higher returns in exchange for taking greater risk. The lowest-risk investments, such as U.S. Treasury bills (which are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest), typically offer the lowest returns.

A stock is a security that represents ownership (or equity) in a corporation. An investor who purchases shares of stock owns a piece of the company and has a claim on a portion of the assets and earnings. This means shareholders can make money if the company does well or lose money if the company does poorly.

A bond is a fixed-income security issued by a government entity or corporation to raise money needed for ongoing operations or to finance new projects. Investors who buy bonds are essentially lending money to the issuing organizations in exchange for regular interest payments.

Mutual funds and exchange-traded funds (ETFs) are investment vehicles that pool money from investors to purchase stocks, bonds, cash, and other securities according to fund objectives. Mutual funds and ETFs invest in dozens to perhaps hundreds of securities, offering shareholders a level of diversification that might be difficult for individual investors to achieve on their own.

Employ Time-Tested Tools

Asset allocation and diversification are widely used investment techniques that can help manage risk and improve the performance of your portfolio over the long term.

Asset allocation is the way your investment dollars are divided among major asset classes such as stocks, bonds, and cash alternatives. The goal is to select an appropriate balance of assets that seeks the highest potential return in light of your investment objectives, risk tolerance, and time horizon.

Diversification involves spreading money among multiple investments whose values typically rise and fall at different rates and times. This way, gains in one area can help compensate for losses in another, and may help limit the impact of loss from any single type of investment.

Revisit Your Portfolio

The asset allocation of your portfolio may shift over time due to market performance. A shift toward stocks may leave you overexposed to risk, or a shift toward bonds might make your portfolio too conservative to accomplish your long-term goals. Rebalancing is a process that returns a portfolio to its original risk profile.

One rebalancing method is to sell some of the assets in which you have too much money and use the proceeds to buy more shares in the other asset classes. However, this could trigger capital gains taxes in a taxable investment account (but not in a tax-deferred retirement account such as an IRA or employer-sponsored retirement plan). Another way is to direct new investment dollars into the underweighted asset class. While this method typically takes longer, it generally has no immediate tax consequences because you're not selling any assets.

Expect Market Volatility

The potential for larger, short-term price swings is the price you pay for the higher long-term returns associated with riskier investments. But even if you view market volatility as a normal occurrence, it can be tough to handle when it's your money at stake.

Although only you can decide how much investment risk you can handle, try not to overreact when the market drops, especially if you still have many years left to invest. Instead, stay focused on your financial goals and your long-term investment strategy.

Note: All investments are subject to market fluctuation, risk, and loss of principal. When sold, investments may be worth more or less than their original cost. Diversification and asset allocation are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

Mutual funds and exchange-traded funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948, or schedule an appointment with a retirement counselor today.

Source: Broadridge Investor Communication Solutions, Inc.