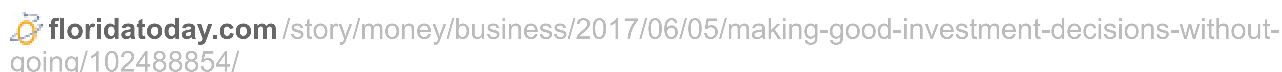
Making good investment decisions



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It is important to understand what you can and cannot control in terms of your investments. Things you cannot control include the tax brackets, rate of inflation, and what the markets do in terms of performance. So, concentrate on what you can control.

You can control your rate of savings. For most families, not saving at least 15-20 percent of their income starting early on in life is a problem. It is hard to catch up. Saving more has the additional benefit of having you learn to live at a less annual cost, so that your need for income in retirement will also be less. What your home costs, what your car costs, and almost every aspect of life is much under your control.

You can control the taxes you pay from your investments by choosing both vehicles that are lightly taxed and choosing the right time to take profits from various vehicles. There can be a large difference in the taxes you pay during the accumulation years through the use of retirement plans. Having large sums of money appreciating tax deferred for several decades can be a tremendous source of wealth, all related to control of taxes. When you are retired and taking distributions from your savings, careful consideration of where your distributions come from can make a difference as well.

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You can control your investment costs by using low cost vehicles. The average mutual fund in the US costs between 1.3 and 1.5 percent a year (Investopedia). Many funds can be much more expensive-especially those sold by stockbrokers and insurance agents. You can have a fee only planner that uses low cost no load funds for a total cost of management usually for no more than the average mutual fund cost itself. Also, with most planners, larger portfolios become progressively less costly, whereas most mutual funds have a flat fee that does not improve with portfolio size.

You can control your investment behavior, either with personal discipline and time or by hiring a good advisor. Vanguard funds recently published an article suggesting that an advisor keeping you from just one big mistake such as buying in a market frenzy (1999?) or preventing you from selling in despair (2008-9) can save you an average of 1.5 percent a year. Imagine the difference in wealth between someone moving to cash in 2008 and someone who agreed with the advice to just stay invested. A good advisor can also help you control costs in non investment areas, such as what type and how much life and disability insurance to have. The advisor can help with asset protection issues that could be vital to your financial outcome.

So, ignore those things you can’t control and focus on what you can. Good luck!

Steven Podnos MD CFP is a fee-only planner in Brevard County. He can be reached at wealth carellc.com or Steven@wealthcarellc.com.