Grow your wealth

Points to Consider

By Chris Kondracki

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The stock market has always been volatile and even today we are seeing this. To make matters worse, interest rates continue to hover at or near historic lows. In this environment, it is no small matter to protect your current and future purchasing power against the ravages of inflation. Although this presents serious challenges for individuals who want to protect themselves, there are investment approaches that should reduce investor anxiety while still offering opportunities to grow wealth in a way that is sensitive to the investor's desire to reduce risks.

We know that short-term stock market returns can be significantly impacted by a variety of factors, but ultimately the earnings of corporations are the mother's milk of stock price appreciation. And, truly well run companies typically have a history of not only growing earnings but also increasing dividend payouts to shareholders, often through some of the most difficult economic and market environments. Over time these great companies have become even more valuable, and investors have experienced the fruits of this success in their returns on their investments. For many industry-leading, time-tested companies, these long-term total returns have been impressive, even during periods thought to have been very poor for stock market performance. These are the types of companies that investors should always strive to own.

It is important to know that not only is good company selection critical, it is also essential to integrate these companies into a well-diversified investment portfolio, one which gives considerable attention to sector selection and sector weightings. Yes, good company selection reduces risks, but so will wise sector selection. The importance of sector selection cannot be underestimated.

There are many common investment vehicles that an investor can use to obtain market exposure such as index funds, exchange traded funds (ETFs) and mutual funds. With index funds and ETFs, common stocks in these portfolios are typically not selected on the basis of careful individual stock research and analysis. While mutual funds usually do conduct research on companies in their portfolio offerings, do not expect to have any conversations with a portfolio manager. In fact, it is unlikely that you will know, on a current basis, what is even in the portfolio. These usually are not investment vehicles for individuals who want to have tighter control and review over their investment portfolios. For these investors, a separate account with an investment adviser can be a much better solution. The investor should expect that the adviser will explain why certain companies are in the individual portfolio, and which sectors are represented, as well as which have been avoided. And, because investment holdings are held in individual accounts at a major custodian firm, the individual can see holdings and trades as they are made.

Now, there is another dimension to achieving good investment returns, and that is the one concerning fees and commissions. Since many successful investors often seek the help of a professional investment adviser, it is important to understand all fees, commissions and transaction costs that might be incurred. There can be significant differences between fee-only, fee-based and commission-based investment advisers, brokers and agents. You should know exactly how your investment adviser is compensated and how to measure your performance net of fees and commissions.

Finally, it is not a secret that many investors have grown very frustrated with some individuals and organizations that always seem to be trying to sell them something. Seek out an investment adviser who is genuinely sincere, especially well informed, and has the individual investor's best interest in mind. The investment adviser can help you become more aware of the many excellent opportunities that exist for financial gain and also will help you develop a better understanding and acceptance of the associated risks. If you do this, you might come to see the stock market in a much different light.

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