Have You Constructed Your Fortress?

While many people today are building fortifications or heavily protected buildings (for whatever reason), I want you to create a **financial fortress**. I define this as a long-term investment account where you make deposits but absolutely no withdrawals. This is the account that you will use to grow your wealth over decades. The idea here is to continually invest in assets that have the opportunity to grow over time. Do not think short term here. Find any excuse to make a deposit to this account. You stayed away from Starbucks for a week. Great. Now deposit $30 into your account. You got a pay increase? Congratulations! Now place one-third of that increase into the account every time you get paid. Are you expecting a refund from filing your taxes? Take one-third to one-half of the refund check and deposit it into your financial fortress. You get the hang of it—take a third to a half and place it into your fortress.

You never use this account to buy things made of shiny plastic and metal. This is your long-term wealth account, so treat it with respect. Speak with an investment professional and identify long-term growth investments that are suitable for you. Do not use this account to speculate or to trade stocks. With that caution in mind, let me emphasize that you do want to speak with your financial planner about how best to position your assets for growth over time.

Understand that your investments will not grow over each and every time period—i.e., each day, each week, each month, etc. Even the best investments lose value some of the time. It is important not to panic when markets turn volatile. I urge you to speak with your team and to gain a solid understanding of investment basics. With greater understanding comes greater confidence.

For example, if my objective were to retire in 17 years, that equates to 204 months. I would not be overly worried if my investment balances were down in month 13, 47 or 68. After all, I am still contributing to these accounts month after month and, on balance, I would rather purchase assets or shares that have been marked down in price rather than more expensive shares that have been marked up in price.

I recall a mentor years ago who recommended a near 100% allocation to a diversified common stock portfolio to fund his retirement. His reasoning was that, based on historical market returns, he was willing to accept a high degree of uncertainty now in return for his invested dollars potentially growing at higher rates of return over time.

Many times, a retirement investor's worst enemy is his or her own behavior. Consider that for the 30-year period ended December 31, 2015, the average annual return of the Standard and Poor's 500 Index ("S&P 500"™)* was 10.35%, while the average return of equity investors during the same time period was 3.66%**. The most reasonable explanation for this is poor investor behavior. By this, I mean that the average investor actually underperformed the S&P 500™ due to his or her behavior of moving in and out of equity investments due to fear, greed, poor advice or other reasons. In order to attain the higher return, all the investor had to do was leave his or her investment alone—in other words.... do nothing.

*Opinions expressed are those of Rodger Alan Friedman. All opinions are as of this date and are subject to change without notice. Past performance is not a guarantee of future results. *The Standard and Poor's 500 Index is an unmanaged index of approximately 500 widely-held US securities chosen for market size, liquidity and industry group representation. S&P 500 is a registered trademark of S&P Global. **Source: Dalbar