



## WHZ-101

# Selecting your investment objectives

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There's an old proverb that states that the 1,000-mile journey begins with a single step. Similarly, the road to achieving financial freedom begins with a single step -- selecting an investment goal. Investors must remember that they can't create a successful financial plan unless their investment objectives are clear and well defined.

## Setting a time frame for your goals

Financial planners typically develop a client's investment strategy according to the amount of time it will take to reach a goal. Putting a down payment on a home, buying a new car or saving for a vacation are considered to be *short-term goals* (1-3 years). Saving for a child's education, trading up to a larger home and starting a new business are often labeled as *intermediate-term goals* (3-10 years). Planning for retirement, purchasing a vacation home or taking a world cruise are normally classified as *long-term goals*.

Each of these financial goals has certain investments that are best suited for those purposes. For example, a person with a short-term goal would not be an ideal candidate for investing in the volatile stock market. The reason being there wouldn't be enough time left for the investment to recover should the market take a downturn.

"If a goal is less than three years away, then they should not really consider making investments in the securities marketplace," says William Green, a certified financial planner for Green/White Advisors in Houston. "If your goal is something that can be reached in 12 months, then you can put your money in a conservative investment like a money market account or a certificate of deposit."

## Factors affecting your investment objectives

Age is one of the issues that could influence the way you choose to pursue your goals. If you are a young person building assets for long-range goals, then you will need aggressive investments, like stocks and stock mutual funds, to help your savings grow. Younger people can afford to take more risks because they have the time to outlast any short-term market fluctuations.

But if you're an older investor approaching retirement, then you're probably more concerned with protecting the savings you already have and enjoying income from investments and IRAs. Dividing your investments between conservative, moderately conservative and aggressive income funds would fill your needs.

Here are a few other factors to consider when identifying your goals:

- *Financial resources available:* You can't invest money that you don't have. However, it's better to start early even if you don't have much money to invest. The sooner you get started, the faster you can reach your goals.
- *Accessibility to funds:* You should be prepared in case you need to take money out of an investment quickly for an emergency. Having easy access to your funds (short-term liquidity) involves maintaining an emergency fund in a non-retirement account (i.e. money market fund, bank CD, short-term bond fund) equal to three to six month's worth of living expenses during your working years. This translates from six month's to one year's worth of living expenses during your retirement years.
- *Tax ramifications:* Many retirement plans (i.e. 401(k), IRA, Roth IRA) are tax-deferred, but investors must understand that those monies may be subject to premature withdrawal penalties. Municipal bonds are a popular choice for investors seeking to avoid the IRS.

- *Risk tolerance:* Getting a late start toward your goal might mean that you'll have to take larger risks to reach your goals within the desired time frame. Diversifying your portfolio among different types of assets is one way to reduce your risk level regardless of your age.

## Refocusing your goals

Time frame	Goals	Investment vehicles
Short-term (1-3 years)	Down payment on home, new car, vacation	Money market account, certificates of deposit
Intermediate-term (3-10 years)	Children's education, trade up to a larger home, start a business, change careers	Education IRA, individual stocks and bonds, stock mutual funds, balanced mutual funds
Long-term (10 years or more)	Retirement, vacation home, world cruise	401(k), IRA, Roth IRA, variable annuities, growth mutual funds

By now, you probably have a specific goal in mind. But that alone is not enough. You must also understand exactly what it will take to reach that goal. One reason why certain financial plans fail is because they're attached to unrealistic goals, according to Green.

"The mistakes people make are not writing the goal down and not really realizing whether it is achievable," he says.

Harry Kasanow, a certified financial planner who heads Kasanow & Associates in Honolulu, agrees that folks need to be realistic about the rate of return they can expect from their investments. He says that investors can expect to average about 7 percent interest on Treasury bonds and 12 percent for equities held over long periods. The planner has seen instances where people fall short of their goals because they are not being aggressive enough with their investments.

"They've divided their money evenly into 10 Fidelity Funds by putting 10 percent in each," says Kasanow. "They try to lower their risks by crossing all the mutual funds, not realizing that they are putting themselves at great risk of not reaching their goals. One of the mistakes tends to be that they don't put enough money in securities."

He adds that investors need to make a commitment to their financial plan for it to work. In other words, make regular contributions, and don't panic every time the stock market dips. Make the plan. Implement the plan. Stick

with the plan. Class dismissed.