Tabar Gaul LLC

Top 10 Rules for Investing

1. Be in it for the long term. Short term trading results in “selling low” and “buying high” with additional costs incurred for transaction fees when buying and selling.
2. Establish a target allocation, for example 60% equities (i.e., stock) and 40% bonds. Equities are important for growth of the portfolio because inflation will erode your buying power over time.
3. Periodically rebalance your portfolio to maintain your target allocation. If the allocation drifts by more than 5%, then rebalance. The rebalancing has the effect of “selling high” and “buying low” - the mantra of investing.
4. Be well diversified. Choose funds that have many bonds or many equities. Be careful when selecting funds that are “cap weighted” since they may have a lot of exposure to a single stock such as Apple.
5. Choose funds and brokerages that have low annual fees, no commissions, and low sales (transaction) fees such as Vanguard and Scottrade.
6. Be wary of people wanting to sell you annuities or wanting you to cash out any existing annuities. Annuities can be useful in a portfolio but they are complex instruments that bear critical understanding. Annuity salespeople make large commissions on the sale of annuities so they have a large incentive to sell annuities, which may not be always suitable for your situation.
7. Immediate fixed annuities are usually the best option if you want an annuity since they are reasonably simple to understand and are not loaded with fees.
8. Don’t invest more than one-half of your portfolio holdings in annuities because inflation will erode your purchasing power in the future. An annuity paying $6,000 a year today will have the purchasing power of $3,000 in 24 years assuming an average annual inflation of 3%. There’s an old adage of risk versus return that you can either “sleep well or eat well”. An annuity will help you to sleep well knowing that you can pretty much count on receiving annuity income the rest of your life. But as inflation drives up the cost of everything, including food, you may not eat so well decades later because the monthly income from a fixed annuity is a fixed amount for your entire life.
9. Do not hold tax-exempt municipal bonds in a tax deferred account such as a 401k or 403b. Put them in taxable accounts so that the yearly interest is tax-free.
10. In times of extreme market volatility, review items 1 through 3 and remember that you must be in it for the long term. For many investors, it’s not the volatility that hurts them in the long term, but rather how they respond to it.