HOW DO I CHOOSE MY INVESTMENTS?

DIY vs. Do It For Me

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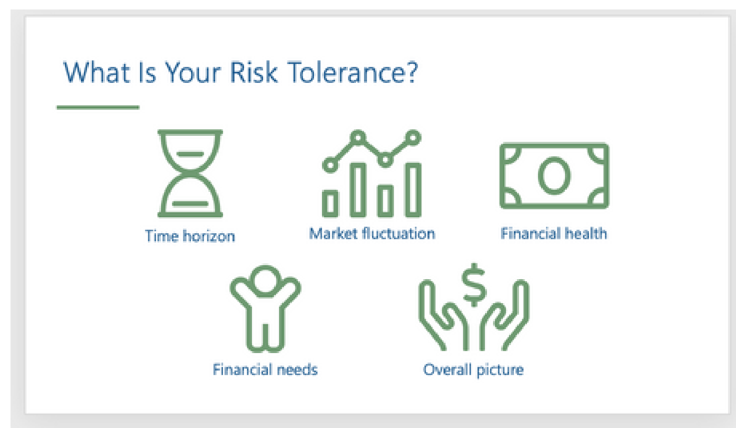
SHAMROCK
WEALTH MANAGEMENT

When building your retirement plan portfolio, use your personal decision-making factors as a guide.

1. How many years are there until you need to access the money in your workplace savings plan?
2. What is your personal tolerance for risk? Pose some hypothetical risk scenarios to find out how comfortable you are with them.
3. How solid is your personal financial situation?
4. What are your short- and long-term financial needs?
5. What other sources of income, aside from your retirement plan, will you have available when you reach retirement?

Then think about the characteristics of each asset class and what role each can play in your portfolio.
When choosing the right investments, you must understand how much risk you are willing to take on and can withstand emotionally.

THERE ARE *SEVERAL FACTORS* THAT GO INTO DETERMINING YOUR RISK TOLERANCE.



In general, the factors you need to consider are:

- Time horizon: How many years are there until you need to access the money in your workplace savings plan?
- How fluctuation in the market and your account makes you feel: What is your personal tolerance for risk? Pose some hypothetical risk scenarios to find out how comfortable you are with them.
- Your current financial status: How solid is your personal financial situation?
- Your financial needs: What are your short- and long-term financial needs?
- Your overall financial picture: What other sources of income, aside from your retirement plan, will you have available when you reach retirement?

Once you determine your risk tolerance, and investor profile, you have two choices for selecting your investments:

Do it yourself. **OR** **Have someone do it for you.**

Let's take a look at which may be the right choice for you.

Do It Yourself Option

So, how do you know if you are a DIY investor or a “do it for me” investor?
Let’s look at the traits of DIY investors:

- Have clearly defined goals
- Diversify their investments
- Tend to be able to make investment decisions even when the exact outcome is not yet known
- Possess solid judgment and knowledge about investing
- Are composed and patient
- Don’t allow fear and emotion to rule their decisions

As it relates to investing, does this describe you? Then perhaps you are a DIY investor, and you should consider choosing your own investments.

Here are some sample asset allocation models that you may consider basing your chosen allocation mix on. Remember: there is no one right allocation that meets everyone’s needs. Each investor has to evaluate the options in terms of his or her own objectives, financial needs, risk comfort level, and time horizon.

Conservative (Income with Limited Growth): I am willing to accept limited risk to my investment principal in this account, even if that means this account does not generate significant returns and may not keep pace with inflation. This objective generally focuses on the generation of current income.

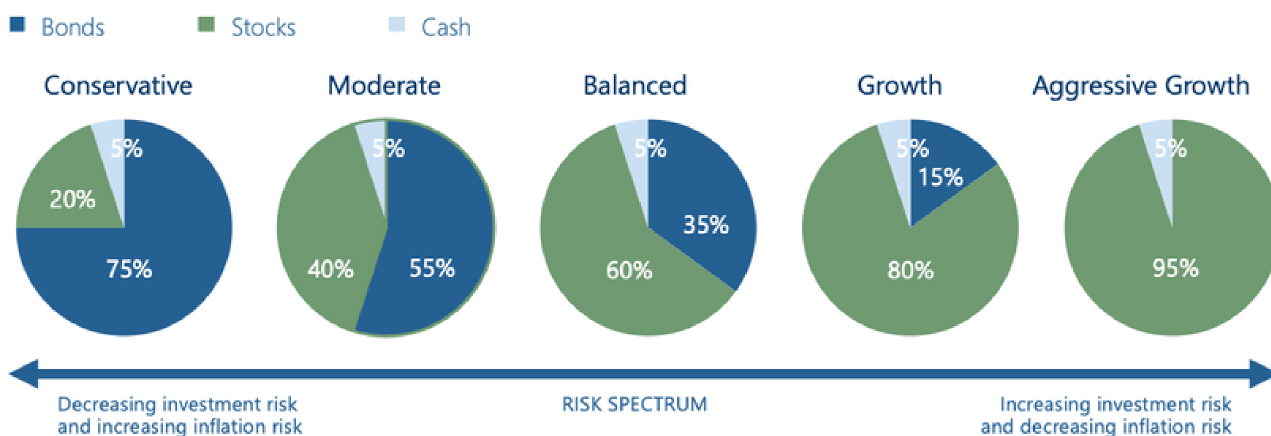
Moderate (Income with Moderate Growth): I am willing to accept relatively low risk to my investment principal and will tolerate some volatility to seek a modest level of income and/or objective returns. This objective generally focuses on asset appreciation sufficient to offset inflation over time while also generating current income.

Balanced (Growth and Income): I am willing to accept moderate risk and volatility to my investment principal to seek higher returns. This objective generally targets a balanced asset allocation approach that seeks to provide growth potential and generation of interest or dividend income.

Growth (Primarily Growth): I am willing to accept a relatively higher risk to my investment principal, including greater volatility, to seek higher returns over time. This objective generally targets growth of the portfolio, which may or may not focus on the generation of interest or dividend income.

Aggressive Growth (Growth): I am willing to accept maximum risk to my initial principal in order to aggressively seek maximum returns. This objective generally seeks maximum growth potential or generation of income from equities or alternative investments.

Once you have determined your risk tolerance score, these pie charts illustrate how you can put together portfolios with different levels of risk, from conservative to aggressive. You can use one of the sample target mixes as a guide for choosing the funds.



There are a couple of ways to get involved in managing your account. You can tackle it yourself using the resources available on your plan sponsor's website. Or, you can work with an advisor. Either way, you'll start by gathering your personal and financial information.

If that doesn't describe you, then perhaps you'd be more comfortable having someone do the investing for you. In a 401(k) plan, that usually means investing in a target-date fund.

Do It For Me Option

A target-date fund, or TDF, is a professionally managed mutual fund that automatically changes the direction of your investments from high-risk, high-reward to low-risk, low-reward options, based on your target retirement year. Let's take a closer look at what those options mean:

High-risk, high-reward: This option is known as an aggressive investment strategy. Aggressive investments—like single stocks—are riskier and more volatile than conservative options, but they have the potential to earn higher returns.

Low-risk, low-reward: This option is known as a conservative investment strategy. Conservative investments—like some bonds, certificates of deposit (CDs), or money market funds—are less risky than aggressive options; however, they only earn modest returns.

Let's look at an example:

Kate is 30 years old. She is still in her formative working years, and retirement is a ways off. Because of this, Kate would choose a target-date fund that most closely corresponds with the year she expects to retire, which is 2067. Doing this will allow Kate to invest more aggressively now and, over time, adjust the risk of her investments as she nears retirement.

Contrast that with Kim, who is 58 years old. For Kim, retirement is much closer; she plans to retire in 2027, which isn't far away. Because of this, Kim would select a target-date fund that is made up of more conservative investments that seek to minimize any potential loss. The trade-off is it won't provide many gains, either.

In short, target-date funds help take the guesswork out of investing.

Other Things to Keep In Mind

No matter what kind of investor you are or which investments you choose, it's important to perform regular maintenance on your 401(k) portfolio.

Rebalance < TDFs do this automatically >
Portfolio rebalancing is just a fancy way to say adjusting your investments. It means you change the asset allocation of your portfolio to return to your desired portfolio makeup.

Why is this necessary? Over time, the different assets have different returns/losses, so the amount of each asset changes—one stock or fund might have such high returns it eventually builds up to be a larger portion of your portfolio than you want.

For example, if you're aiming to have 70 percent stocks, and stock prices go up drastically over a quarter, you might end up with 80 percent of your portfolio's value being held in stocks. That's when it could be time to rebalance.

Diversify < TDFs do this automatically >
You may be asking, "Why do I need an allocation rather than just invest in one investment?"

Because there is no way to predict next month's or next year's winners, you may have a better chance of doing well in the market by holding a wide range of investments.

Regular check-ups
There are other things you should do, too.

For instance, what if the factors we talked about earlier have changed? What if your risk tolerance has gotten more aggressive, or more conservative? What if you originally thought you were going to retire at age 60, but life events have made you realize you'll need to keep working until you're 67. Perhaps your financial situation has changed—you've gotten married, or you've inherited a large sum of money. These are all things that could cause you to reassess your investments. So, it's important to do a periodic check-up—at least every couple of years—to make sure your investing strategies still align with your goals and investor profile.

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