

Avoiding Mistakes and Using Good Investments can Help to Build Your Nest Egg

Written by Michael Alexenko, CFA
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There are no silver bullets for increasing your nest egg. Some people think that Wall Street is a rigged game and if they could only find the right person to get them on the inside track that they'll never lose money regardless of how the market is performing. They have to get that fantasy out of their heads.

The best way to increase your nest egg is avoid mistakes. Don't try to time the markets, develop an investment strategy and diversify your portfolio. Make use of some great exchange traded funds (ETFs) that give you access to asset classes that until a few years ago were hard for the individual to invest in. For Real Estate you have (VNQ or ICF), Emerging Markets (EEM or VWO) and International Small Cap (DLS or SCZ). These funds offer great diversification benefits to a long term investor and can help to enhance returns and drive down overall portfolio risk. Rather than trying to find the one stock that is going to make you rich consider adding a Micro Cap ETF, like IWC. Small companies have the greatest growth potential and adding about 2.5% of your total portfolio's total value to IWC could be good for someone trying to boost his/her investments' firepower.

If your employer offers a 401(k) make sure you maximize your contributions, especially if your employer offers even minimal contribution matching. There may be no easier mistake to avoid than this one.

Watch out for excessive investment costs. There is little reason why you can't construct your own quality portfolio for less than .25%. Vanguard and iShares are two companies you need to make maximum use of to avoid the return erosion that high investment costs can cause. If you can't get a straight answer from a broker/financial advisor about how much your total investment costs are then run fast. If you need help building your portfolio then paying no more than 1%-1.25% in total fees and expenses is very achievable with respectable independent firms.

Know your risk tolerance. I saw too many people really rattled in 2008/09 and some decided to sell stock near the market bottom. That's a devastating self-inflicted wound. Realize that losing 20% of \$100,000 is \$20,000. 20% sounds benign, but when you convert the percentage into dollars it can give you a greater appreciation for what a bear market can mean. Imagine having a \$500,000 portfolio that is hit with a 40% bear market and now you're left with \$300,000. That's pain that most people cannot stomach. The selling low and buying high offense is hard to commit if you know your true risk tolerance and you implement a strategy consistent with your risk appetite. Having the right investment mix will allow you to sleep well, during good or bad markets.

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