RAYMOND JAMES®

20 KEYS TO BETTER INVESTING

One of the fundamental building blocks requisite to the attainment of an individual's financial objectives is the establishment of a long-term relationship with his or her financial advisor. A financial advisor must be educated in the techniques of financial planning, possess an understanding of all the investment alternatives available in the marketplace, and exhibit unquestionable honesty and concern for his or her client. Raymond James makes every effort to attract and educate financial advisors who fulfill these criteria. Once you have selected a financial advisor who possesses these attributes and with whom you are comfortable, it is necessary to build that long-term relationship. Moreover, there are a number of simple rules of investing that our Chairman Emeritus Thomas A. James believes should be followed throughout the relationship:

1) Communicate frequently and frankly with your financial advisor, particularly about your concerns with respect to any financial planning strategy, investment and/or compensation. An honest, sincere relationship is fundamental to the success of the client's efforts.

2) Work with a trained financial advisor to develop an agreed-to financial plan that will guide investment decisions. Review it at least annually and revise as needed.

3) Don't reach for unrealistically high returns. Keep expectations realistic. Any investment which is represented to provide significantly higher-than-market-rate returns generally is not legitimate. Investments such as prime bank notes, special bonds or accounts that promise double-digit interest, are just a few examples of the ploys to part you from your money. If an investment sounds too good to be true, it probably is and may not perform up to expectations. In periods of low interest rates, higher investment returns imply risk to the value of the principal. Be skeptical about "guarantees." Financial advisors cannot share losses or gains in a client's account.

4) While a prospectus or other investment literature can be intimidating, investing hard-earned dollars is a serious task and requires an investor's attention and involvement. With the assistance of a financial advisor, read the literature and strive to understand the investment's fundamentals, risks, potential rewards and costs. For example, different features and commission rates may apply to each mutual fund or annuity among the thousands available in the market.

5) Always strive for diversity among investments, styles and portfolio managers, even when investments appear to offer limited risk. Due consideration by a client and an explanation of the incremental costs of diversification by the financial advisor are integral to this decision-making process.

6) Establish cash distribution rate objectives on investments that are lower than actual earnings or yields. Since mutual funds, master limited partnerships (MLPs) and certain other investments often distribute more than earnings, clients should utilize a withdrawal plan that results in a growing principal account balance over the long run to compensate for inflation and growing cash flow requirements in the future.

Cameron Diehl, CFP®, Financial Advisor

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7) An asset allocation model should be designed for a client, and a client and his or her financial advisor should meet regularly to determine if the client's changing economic circumstances require revisions to his or her portfolio. The asset allocation model should err on the conservative side, but almost always include some quality equity exposure. Inflation requires a growing principal balance to maintain the client's standard of living. The financial advisor should prepare meeting notes for the client's records.

8) All, or a substantial majority, of equity investments should be in professionally managed portfolios or in a diversified group of high-quality stocks. While emerging growth stocks and small capitalization stocks have a place in every wealthy investor's portfolio, and should make up a modest proportion of almost everyone's equity portfolio (with the exception of a retired person of insubstantial means), the vast majority of dollars should be in high-quality, recognizable names with favorable prospects. It is often useful to establish a separate small-cap or risk-oriented portfolio to ensure that a client and financial advisor have the discipline to understand and limit the risk.

9) Part of an equity investment portfolio should be invested in foreign equities through professionally managed international mutual funds and/or asset management portfolios. There are additional risks associated with international investing.

10) Asset allocation models for high-net-worth clients should include some real estate investments. Real estate investment trusts currently provide the most convenient vehicle.

11) As the name implies, income investments should always be purchased for the income they provide, but also for capital preservation. They should always be high investment grade unless a client is willing to assume incremental risk in exchange for the growth potential offered by income-producing equity investments such as dividend-paying stocks, bond funds or closed-end funds. Even then, the incremental yield may not be worth the risk.

12) Use margin in the Raymond James Ready Access Account (margin) sparingly for investment purposes. Leverage increases risk. However, if borrowing money for non-investment purposes, consider a Ready Access loan as it is often the lowest-cost alternative. Maintain the same discipline in paying down a Ready Access loan that you would with any other loan.

13) Treat IRAs and other qualified plan investments as very serious money and let the magic of compounding work with professionally managed stocks and bonds. Generally, do not fund qualified plans with partnerships or other complex investments because they can lead to reporting, valuation and tax problems. Before opening an IRA or qualified plan account, clients should carefully review the IRA Agreement and Disclosure document or qualified plan trust document provided by their financial advisor and consult with him or her regarding any questions or concerns they may have.

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14) Don't try to "time the market." Be a long-term investor, and practice patience and adherence to an asset allocation model. Avoid the latest funds. Dollar-cost-average where possible – continue to add to equity investments, if able, on a regular basis. Studies demonstrate that timing decisions need to be "right" over 70% of the time to add value, and moving to cash increases the risk that you may miss market rallies, which often run in short bursts.

15) Be both receptive to and skeptical about new ideas. Evaluate them carefully and use them in moderation.

16) Generally, avoid giving investment discretion to anyone other than financial advisors, professional managers or professional fiduciaries who have been approved by a reputable firm.

17) Everyone makes errors in investment selections. Learn to recognize an error and take losses early. It is generally far less painful to recognize a small loss than to ride it to zero. Do not make the mistake of waiting to recover the original cost.

18) Do not panic out of the market when investments have declined in value because of a general market decline. That is often the most opportune time to increase investment positions, as long as the fundamentals of the selections remain positive.

19) It is better to err on the side of conservatism than to be too aggressive.

20) Never purchase any securities outside the financial advisor's broker/dealer and immediately ask the firm about any purchase you have made not reflected on your client statement at the broker/dealer.

If you follow these common sense rules of investing, your results should have a higher probability of success. Although none of these "rules" work all of the time and there are no "guarantees" in the world of investments, these disciplines have produced excellent results over the long term. A disciplined approach to investing, assisted by a financial advisor with whom you have established a good relationship, will better enable you to attain your financial objectives.

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