INVESTMENT INSIGHTS

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Finkelberg INVESTMENTS of RAYMOND JAMES®

Not Taking Risks Can Be Risky

Let's start with a fundamental question – why invest? There are many possible answers to this question, but presumably one invests in order to maintain, or hopefully increase, buying power over time. In other words, an investor hopes that his portfolio's rate of return exceeds the rate of inflation, thereby allowing the purchase of more goods and services over time. Of course, there are many other investment goals including maintaining an emergency cushion, paying off future liabilities, and seeking entertainment. Also, the investor may not be the one who actually purchases the goods and services. Instead, funds might be given to family members or charitable organizations, allowing these beneficiaries to purchase more.

How one invests to achieve the primary investment goal is equally important because each investor has a different timeframe and ability to withstand risk. Let's address the time issue first. If the anticipated use of funds is relatively short-term, a strong case can be made for investing in less volatile assets. These typically have lower projected returns. Why settle for a likely lower rate of return? Because a drop in the stock market, for instance, occurring just when funds are needed, say for a downpayment on a house, may not allow adequate time for a recovery in value. In this case, an investor might sacrifice purchasing power in order to have the necessary funds available to meet a future obligation. Over a longer-term investment horizon, the probability of losing money in a diversified portfolio of more volatile assets (i.e., stock and bonds) has historically been low. Additionally, the rate of return has historically been higher than less volatile assets and higher than the rate of inflation. Of course, future results may differ from past results.

What about risk tolerance? What do we mean by risk? There are many alternative definitions, but when folks talk about risk, they are generally referring to the volatility of the price of the investment as well as the possibility of realizing a permanent loss of money.

In a fantasy world, we could achieve a rate of return in excess of inflation without taking on the risk of volatility or loss of principal. Right now, we are

Our Mission

"To guide our clients to and through retirement with a minimum of worry, with expertise and kindness."

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DJIA 43,444	3-Month T-Bill 4.61%
S&P 500 5,870	10-YR Treasury Bond 4.43%

living in this fantasy world where one can put funds in a money market account or purchase a short-term CD or Treasury bill at rates higher than the current inflation rate. There is absolutely nothing wrong with taking advantage of this unusual circumstance with a portion of one's portfolio.

Why not go "all in" on putting your funds in safe, short-term investments? There are several reasons:

1. Opportunity cost – Even at today's 4+% rate on short-term investments, the historical rate of return on stocks is much greater (roughly double). Over the course of many years, that difference in return can amount to a substantial amount of "lost" money.

2. Things change – Economic conditions can change rapidly and so can inflation and interest rates. Historically, short-term rates approximate inflation and will likely maintain that correlation in the future. So, the advantage of short-term rates over the rate of inflation is not likely a sustainable occurrence.

3. You'll change direction when conditions change - Unfortunately, when short-term rates drop and there is no longer an advantage over inflation, the longer-term financial assets – stocks and bonds – will likely have anticipated the lower rates and gained in price before you have shifted your money. Because no one has a crystal ball, an investor trying to time the move between short-term, less volatile assets and longer-term, more volatile assets will likely stay several steps behind the markets.

Let's reframe our thinking. I don't believe that investors are facing a choice between risk and no risk when they decide between short-term non-volatile assets and stocks and bonds. I contend that investors are instead facing a choice between two different types of risks. On the one hand, investors run the risk of volatility and loss, and on the other hand, they contend with the possible loss of buying power and the risk of not accumulating sufficient assets for their needs.

With the risk of volatility and loss, typically associated with stocks and bonds, the investment horizon is important. As noted earlier, if money is being invested for a relatively short-term period, stocks and bonds may not be appropriate. Stocks and bonds do show volatility and this volatility is not predictable. However, longer holding periods show more consistency of returns and diversified portfolios have historically rebounded in price eventually.

When someone thinks they are choosing a no risk portfolio, they may actually be assuming a different type of risk.

In fact, not taking risks can be risky.

The question is why go through the volatility and potential loss, even if temporary? Over the past century, inflation has averaged just over 3%. So has the return on T-Bills. In other words, T-Bills have roughly kept up with the pace of inflation, excluding taxes and transaction costs. A portfolio of corporate bonds over the same timeframe has shown an actual return of 6.7%* or roughly double the rate on T-Bills. The S&P 500 stock index has shown a rate of 9.9% or roughly triple the T-Bill rate. These returns are historical, may not be repeated, and don't allow for transaction fees or taxes. What does this look like in dollars? A million dollars invested at the 3.3% T-Bill historical rate would be worth about $1.9 million in twenty years. A 50% stock /50% bond balanced portfolio at a 7% net rate of return would accumulate to over $3.8 million in twenty years, or roughly double the T-Bill total.**

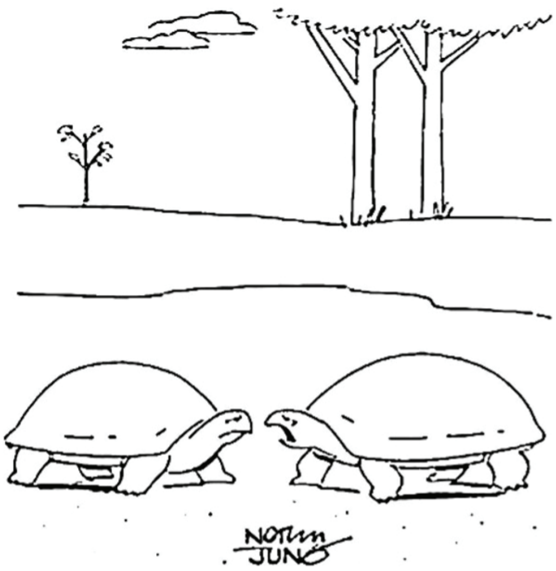
Like many decisions in life, investing involves tradeoffs. Is it worthwhile in the above example to withstand periodic sharp drops in value, probably exceeding 20% from top to bottom, in order to accumulate an extra $2 million? An extra $2 million may be the difference between having or not having a comfortable retirement. There are many variations to this choice based upon the amount of volatility that can be withstood and the timeframe involved.

However, the decision is not risk or no risk. Rather, it is how much risk and what type of risk a person chooses.

As you decide how to invest between the push/pull of the two types of risk, several points should be considered:

1. Why are you investing and what is the likely timeframe before needing some or all of the money?
2. How much downside volatility are you emotionally willing to accept even if you know that drops in value of a diversified portfolio will normally be followed by an eventual rebound?
3. Financial markets have historically provided fairly consistent returns over the long run. Are you patient enough to take advantage of this benefit?

Wherever you decide to invest on the scale between the volatility/loss risk and the not accumulating enough money risk is a personal choice. Just remember, it is a decision not between risk and no risk, but between two opposing risks. When someone thinks they are choosing a no risk portfolio, they may actually be assuming a different type of risk. In fact, not taking risk can be risky.



"What concerns me the most is that I'll outlive my money."

Tortoises are the longest-living land animals, with lifespans up to 250 years. Talk about the need for long-term investing!

Medicare Open Enrollment Season

We are currently in the Medicare Open Enrollment period (October 15 – December 7), which means this is the time to review and make any appropriate changes to Medicare Plans. Starting in 2025, some laws will change around the Medicare Drug (part D) plans, so it is important to reassess your needs, costs, and any changes to medications. Raymond James partners with an excellent service called ClearMatch which offers personalized assistance on these questions to our clients – free of charge. They have already helped many of our clients navigate these complicated decisions. If you're interested in setting up a phone meeting, give us a call!***

Year-End Reminder

As 2024 draws to a close, please remember to contact us if you plan to do any charitable gifting from your accounts. Whether you plan to donate appreciated stock, or to make a Qualified Charitable Distribution from your IRA, we want to ensure we have plenty of time to process your donations by the year-end deadlines.

Happy Thanksgiving!

On behalf of everyone at Finkelberg Investments, we wish you and your family a very happy Thanksgiving!

Save the Date

The annual Chartered Financial Analyst Forecast Dinner will be held February 20,2025 at the Country Club of Jackson. This event features a panel of experts in the financial industry discussing the current economy and investment environment. As we move closer to the event, Arty will mail invitations for you to attend as his guest.

Here are some photos from last year's event:

Happy Anniversary

68th	W. and P.D. of Hoover, AL
63rd	J. and B.H. of Brandon, MS
62nd	W. and M.H. of Ridgeland, MS
62nd	J. and M.R. of Mobile, AL
62nd	L. and L.K. of Florence, MS
50th	B. and D.W. of Mendenhall, MS

Special Birthdays

94	D.O. of Madison, MS
94	J.E. of Madison, MS
93	C.S. of Flowood, MS
93	J.E. of Terry, MS
91	L.J. of Pearl, MS
91	F.C. of Madison, MS
91	A.G. of Ridgeland, MS
90	W.N. of Jackson, MS
85	S.N. of Jackson, MS
85	A.P. of Brandon, MS

It was wonderful to see these out of town visitors

L.R. of Oxford, MS
C.B. of Easton, CT
R.W. of Charlotte, NC

Until Next Time,

Arty

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Disclosures:

*Source: NYU Stern School of Business. Moody's Aaa and Baa corporate bond yields obtained from the Federal Reserve website (http://fred.stlouisfed.org). https://pages.stern.nyu.edu/~adamodar/New_Home_Page/data.html

**This is a hypothetical illustration and is not intended to reflect the actual performance of any particular security. Future performance cannot be guaranteed and investment yields will fluctuate with market conditions.

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