PRIVATE ASSET MANAGEMENT, INC.
WEALTH STRATEGY ADVISORS
PARADIGM

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Thank you for your business, friendship, and support during 2018. We truly value our relationships. We look forward to working with you in the future in a manner that is aligned with our mission to "Protect and Empower."

We end 2018 with the final installment of our four-part series. This month, we will reiterate the three long-term trends, plus review three cornerstone concepts we use to help clients navigate those trends.

Three Long-Term Trends

Interest rates will increase. Whether you are a saver, borrower, or an investor in stocks, bonds, or real estate, the upward trend in interest rates affects you.

Earnings growth will fuel stock returns. Future stock returns are expected to be modest by historical standards. However, 7% per year, most of which will be fueled by earnings growth, need not derail your financial future.

Taxes will increase. Recent tax increases have been at the local level, though we believe the trend will eventually occur at the federal level, too.

Three Cornerstone Concepts

Each of these concepts applies to everyone differently. We can help you determine a sound set of choices for your situation.

Personalized approach. This concept has three components. First, your perspective should include a consideration of return on investment and return on life. Beyond the returns required to fund your lifestyle, what else do you want to achieve with your hard-earned wealth? Second, determine your tolerance for risk. Avoiding choices that can be financially costly is part of success. Many times, these poor choices are made when one is not clear of how much risk they can tolerate. Third, determine your capacity for risk. Just because your financial situation might allow you to take more risk in the hope of earning more money, the increased risk may not make you happier. Be clear of what you want and how you define happiness.

Wealth Strategy. This concept has three components, too. First, have a plan. Be as clear as possible about your objectives for both the accumulation and enjoyment phases of your financial life. Second, be sure the strategy is forward-looking and personalized to your needs. For example, when planning, the better choice is to use our lower expected returns for stocks than relying on higher past returns. Third, be sure the strategy is holistic. This means looking at factors outside your portfolio that bear on your wealth, plus having sound answers to the risk tolerance and risk capacity questions.

Diversification is key. Portfolio theory has shown that adding bonds to an all-stock portfolio can, up to a point, increase returns for a given level of risk. This relationship between stock and bond returns has led to portfolios being diversified between stocks, bonds and other assets.

We can always point to 2008 when all stock portfolios were down nearly 40% while diversified portfolios were down just over 20%. What you may not remember is that diversified portfolios recovered their losses quicker than all-stock portfolios.

More recently, the stock market has experienced weekly swings of 5%, while the bond market swings have been much, much less.

Finally, because diversification reduces portfolio volatility, it can also help to reduce making poor choices in stressful times.

Accept the long-term trends. Apply the cornerstone concepts. Together they will aid you in achieving financial success, however you define that. We are here to help.

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