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Financial Briefs

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To Buy or Not to Buy

If you've been investing for years without a strategy, it's never too late to define your strategy and align your portfolio accordingly. Or perhaps you have a strategy that needs some dusting off. Maybe it's simply time to sit down and re-align your portfolio with your investment strategy. After all, the markets aren't static; your portfolio shouldn't be either.

Whether you're investing for the first time or buying new stocks to augment your current portfolio, there are five important questions to ask yourself:

1. What's my objective? Is your ideal stock one that pays a high dividend or that doesn't pay dividends at all, but has a high rate of growth? Is it a stock with relatively little price volatility but lower gains, or one with a lot of potential risk and possibly higher rewards?

How you answer those questions — and the stocks you choose — depends on your objectives. If capital preservation is your goal, for example, a lower-risk stock is probably your best bet. On the other hand, if you're young and growth is your target, a higher-risk, higher potential-return stock may be the right one for you. Whatever your objective, defining that goal is the first step to selecting stocks for your portfolio.

2. Is my portfolio diversified? When considering which stock to purchase, determine whether you need to target your investment in certain areas to balance out your diversification.

Diversification is the single most important factor in managing the risks of a stock portfolio. You should be sure your portfolio isn't concentrated in just one industry, but spread out over at least four or five. And there are other dimensions to consider as well: cap weighting (large-, mid-, and small-cap), style (value or growth), and geography (U.S.-based, developed foreign markets, and emerging

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5 Stock Investing Mistakes to Avoid

Here are five stock investing mistakes that individual investors should try to steer clear of.

1. Forgetting about Taxes

When you buy and sell stocks, you have to pay taxes on the money you earn (unless you're trading within a tax-deferred or tax-advantaged account, like a 401(k) plan or IRA). And those taxes can make a big difference in your overall return.

Generally, if you make money on your investments, you'll have to pay capital gains taxes. If the gains are considered short term (the stock is held for less than 12 months), the taxes will be higher than if your securities were held long term. You'll also need to pay attention to other tax quirks, like wash-sale rules.

2. Putting All Your Eggs in One Basket

If there's one investing mistake to avoid, this one is it. Putting all your eggs in one basket — in other words, going all in on a single investment — can be a recipe for disaster if that investment declines substantially.

When it comes to spreading your money between baskets, that means not just buying stock in multiple companies, but buying stock in different *types* of companies. You may benefit from a portfolio that has a variety of stocks, some big companies, some small companies, and some international companies, all in a variety of industries.

In addition to diversifying within one asset class (stocks), you also want to diversify among asset classes. In other words, invest a portion of your portfolio in cash or bonds, unless you have a high tolerance for risk and a long time horizon.

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To Buy or Not to Buy

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markets).

The benefit of diversification is that the up and down movements of different asset subclasses are not completely correlated, so over time, losses in one industry or subclass may be offset by gains (or lesser losses) in another.

3. What's my expected holding period? If you're looking to speculate or trade for fast gains, your expected holding period is short. In that case, you need to be sure you are timing your purchase so you're getting in near the beginning of an upswing, not at the end.

However, if you are buying for the long term, the price you pay is less critical, as long as you don't purchase a stock in the early stages of a steep decline in value.

4. What's the prevailing market trend? In the 1990s, the market was so strong that almost any stock was likely to go up in value. But in a trendless or bear (declining) market, it's a lot harder to find a winner, at least in the short and intermediate terms. That's because the majority of stocks move in the same direction as the market, no matter how fundamentally strong a stock may be.

5. At the current price, would I be paying too much? To answer this question, you'll have to consider some basic fundamentals.

First, look at the stock's price/earnings (P/E) ratio, which is its price per share divided by earnings per share. How does it compare to the stock's normal range, and how does it compare to its direct competitors? If the P/E ratio is high, maybe the stock is overpriced. If it's low, it could either be a bargain or an indication of a fundamental weakness.

In addition to the P/E ratio, you should examine the stock's past and future earnings growth rate. Then look at its price/earnings to growth ratio (PEG ratio). The PEG ratio compares the stock's P/E ratio to its five-year projected earnings growth rate. A PEG ratio of 1 to 1.5 is typically considered normal. A PEG of 2.0 or higher is often a sign that a stock is overpriced, while a PEG below 1.0 may be an indication that the stock is a good bargain.

Even the most seasoned investor who's comfortable with the five factors to consider when evaluating a stock can benefit from the objective advice of a professional. As hard as we try, it's difficult to not get emotionally tied up in our investments.

Please feel free to call if you would like help reviewing your stock investments.

Understanding Stock Market Risk

The perception that stocks are inherently risky keeps many people from investing. But once you understand what risk means when it comes to stocks, as well as the different types of risk, you'll be more comfortable investing in stocks and have a better idea of how the market works.

Risk and stock investing go hand in hand. When you are buying a stock, you are purchasing a small piece of a company. And the value of that stock is not fixed. It rises and falls based on what the market determines it is worth. You can make money if it increases in value, and you may lose money if the stock decreases in value. Because you can't know for sure what will happen to the stock's price in the future, the investment comes with risk.

Types of Risk

Stocks rise and fall in value for a variety of reasons. Once you understand the various factors that might affect a stock's price, you'll be better able to understand the risk associated with any particular investment and get a sense of whether it is a good addition to your portfolio. Risks associated with stocks fall into two broad categories:

Systematic risk or market risk: This is the type of risk that affects an entire market. You can't really avoid systematic risk, and it is also unpredictable. The 2008 stock market crash is an example of systematic risk, since it was caused by macroeconomic factors that individual investors couldn't have predicted.

Unsystematic risk: This is the opposite of systematic risk. Unsystematic risks affect only certain companies or sectors of the market. For example, changes in energy prices might affect the price of energy stocks, while a political crisis in a certain country may affect stock prices in that region. Or a company may suffer a leadership shakeup that causes its stock to drop. It's easier to identify unsystematic risks than to anticipate systematic risks.

Coping with Risk

If you want to invest in stocks, you'll need to come to terms with risk. The key is to remember that risk or volatility in the stock market is natural. Rather than worrying too much about what the market is doing in the short term, you can insulate yourself by developing a clear investment strategy, perhaps in partnership with your financial advisor. Select stock investments based on your long-term goals. Then, keep your hands off your investments. That's because one other major risk that stock market investors face is themselves. Letting emotions drive your investing decisions will almost always lead to less-impressive returns.

You can also cope with stock market risk by diversifying your portfolio into asset classes other than stocks. By including bonds, cash, and other investments in your portfolio, you'll be better able to cope with the ups and downs of the market.

Curious about how stock market risk might affect your investments? Please call if you would like to discuss this in more detail.

5 Stock Investing

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3. Listening to Too Much Financial News

Being educated about financial markets and staying up to date on the latest trends in business is one thing. But don't constantly tune in to the news and then make big changes to your portfolio based on what you hear.

The idea that you can get a hot tip or special investing insight from the mainstream media is a fantasy. That's not to say these programs aren't informative. But they're just that: information.

Unless you're really seeking short-term investing gains, you should be focused on your long-term investing strategy. That means making investment decisions based on the big picture, not this quarter's earnings report.

4. Buying Penny Stocks

Penny stocks are ultra-cheap shares in small companies and aren't usually traded on the big exchanges, like the New York Stock Exchange or NASDAQ. The market for penny stocks is fairly opaque. The Securities and Exchange Commission (SEC) notes they trade infrequently and can be difficult to sell, characterizing them as speculative investments.

Buying penny stocks can be fun for a lark, but they're a risky investment. For that reason, it's probably not smart to make penny stocks a significant part of your traditional portfolio.

5. Buying on Margin

Buying on margin involves borrowing money to purchase a stock. It's a way to buy more stock than you would normally be able to. Your brokerage firm and the Federal Reserve Board have rules about how much you borrow initially and the minimum amount of equity you must maintain in the account. There are also rules about what types of stocks you can buy on margin (penny stocks are often forbidden, for example).

Savvy investors who are comfortable with risk may buy on margin because if the investment increases in value, it can mean big gains. But for most people, it's a pretty risky move. If the value of your stock falls below a certain point (the maintenance margin), your broker may issue a margin call. That means you'll have to come up with a certain amount of cash or sell part of your investment, sometimes with little or no warning.

Want to learn more about avoiding common investing mistakes? Please call to discuss this topic in more detail.

Keeping Expectations in Check

The most important part of creating a financial plan and investment program is knowing how much you will need to save to reach your goals. And by determining your expected rate of return, you can also figure out how much you will have to save annually. Unfortunately, there is no way of knowing for sure what that rate will be for stocks in the future, so most people turn to clues from the past.

The average annual return of the S&P 500 from 1926 to 2016 was 10% (though not adjusted for inflation), but that overall average does not mean it's the return the average investor can expect (Source: *2017 SBBI Yearbook*). To make that assessment, you must begin by reviewing the equity risk premium, or the excess return expected from a stock rather than a lower-risk investment like a bond. There are many complicated methods to calculate the premium, but the simplest option calculates the difference between total returns for large-company stocks and long-term government bonds.

Between 1926 and 2016, this difference was 4.4% (with significant fluctuations throughout that period), but that might not be a reasonable expectation in the near future. This is because price/earnings (P/E) ratios are at high levels, but may not increase much further since corporate profits are not expected to increase rapidly anytime soon. In addition, a large portion of the equity risk premium is determined by dividends, which are now at low levels.

If the equity risk premium decreases in the future, total returns will fall lower than average. It's impossible to know for sure if this will happen, but it would be wise to keep your expectations of return below the average. Consider these strategies:

- Review your financial goals and how much you'll need to save annually to meet them.
- Save more of your income to make up for lower returns. If necessary, consider taking a second job or cutting expenses to provide those extra savings.
- Invest in a tax-efficient manner. By utilizing tax-deferred investment vehicles like 401(k) plans and IRAs, you can likely pay a lower amount of tax later than what you'd pay now and have more to invest. You can also consider focusing on investments that generate capital gains instead of ordinary income, and minimal turnover in your portfolio will help those gains grow over years.
- If there is a prospect of lower returns in stocks, consider other investment options for a diversified portfolio of cash, bonds, and stocks, with a greater emphasis on nonstock options.
- Don't concentrate your investment portfolio in one category, because a lack of diversification in asset classes can expose you to greater losses if an asset declines.
- Evaluate your portfolio's performance annually to make sure your returns are on track. If they are lagging behind expectations, make adjustments to compensate.

News and Announcements

From the Alexander Household

I'm reading *Boom Town: The Fantastical Saga of Oklahoma City, its Chaotic Founding, its Apocalyptic Weather, its Purloined Basketball Team, and the Dream of Becoming a World-class Metropolis* by Sam Anderson, a staff writer at *The New York Times Magazine*. As you can guess from the title, Anderson has an irreverent, colorful writing style. There are many stories I'm familiar with and even more I've never heard.

One place Mr. Anderson wrote about that neither my father nor I had visited is Spiro Mounds. My father asked if we could go, so of course we did. The Archaeological Center Director, Dennis Peterson, gave a fascinating two-hour walking tour in the rain. Of the mounds, Anderson writes, "When archaeologists finally excavated the mounds, they found copper from the Great Lakes, shells from Florida, pottery from Nebraska, and obsidian from Mexico. Oklahoma had apparently been the hub of a huge network of trade — a central market for prehistoric North America." The only Oklahoma prehistoric American Indian site open to the public, Spiro Mounds has a small museum. The walking tour and reconstructed dwelling that is falling into ruin, in which Peterson lived for a few weeks, were worth the drive.

In *Boom Town*, Anderson weaves the history of Oklahoma City in with the drama of the Thunder's 2012–13 season. I can't wait to get back to my book….

Carol Ringrose Alexander, CFP®, AIF®, CDFA™

From the Rudy Household

It wasn't too long ago that the only option to pay monthly bills was to get out your checkbook, write several checks, and mail the checks. That exercise gave you a review on what bills were being paid month after month. Now, nearly every service or subscription encourages automatic payment. I do enjoy the convenience, but it does create a few concerns for me.

One of my biggest concerns is from the services that encourage an annual auto-renewal at checkout. The annual renewal becomes far too easy to forget and before you know it, you are automatically renewed for another 365 days. Some services even make it very difficult to cancel. They will have an easy, one-click process to sign up for your auto-renewed payments. But if you want to cancel, you can't simply cancel with one click. You may even have to call in, wait on hold, and speak to a person before you can cancel.

To help keep track of our auto-renewal bills, I have put in a few protection measures. I closely track my "free" evaluation periods as not to be auto-signed up. I also track all my recurring payments on a calendar and a document. Not only can I see at a glance what is being paid automatically, but when we lost a credit card, we could quickly identify what accounts we needed to update. Personally, I don't miss the days of writing checks. I feel the convenience of automatic payment outweighs any concerns.

Chad Rudy, CFP®

From the Misialek Household

Johnson Oatman, Jr., born in 1856, wrote over 5,000 songs in his lifetime. One of his most famous, and often still-quoted songs was, "Count Your Blessings," written in 1897.

As we near a new holiday season, we are often reminded to count our many blessings. I encourage you to take a few minutes, write them down, and place them in a special place that you can refer to during the tougher times. Refuse to take for granted all the blessings and comforts we enjoy.

Consider starting a gratitude journal and write down the things you are grateful for each day. Yours could include family, friends, food, shelter, talents, health, our freedom in this great nation, and countless others. Oatman died in Norman, Oklahoma, in 1922. His songs continue to remind us to count your blessings; name them one by one.

Heather Misialek,
Senior Vice President

So that our employees have the opportunity to enjoy the holidays with their families, following are our holiday hours: The office will be closed Thursday, November 22, Friday, November 23, Tuesday, December 25, and Tuesday, January 1. We will also be closed at noon on Monday, December 24 and Monday, December 31.