

---

---

# The Art of Successful Investing



## Five Timeless Tips to Help Build Long Term Wealth

---

---

Some might say that “successful investing” is an oxymoron, like “jumbo shrimp”. Individuals can have a successful investing experience but they must have patience and discipline, or just be incredibly lucky! How can you be a successful investor? A successful investor is much like an accomplished artist. As a matter of fact that is the reason I called this piece “The Art of Successful Investing”.

Like art, investing is not an exact science. There is no owner’s manual for art or investing, because we are all individuals with different tastes and tolerances. Two people standing side by side could be looking at the same piece of art; one may find it a glorious expression of beauty. The other finds it a complete waste of time and effort. Now consider it from an investment standpoint. Two people could be looking at the same investment; one sees nothing but risk and peril. The other sees a great opportunity. In each case who is right? When it comes to art we all have our own taste and opinions, so in their own mind they are each right. How about with investing though? All investments carry some form of risk with some obviously more risky than others. As investors we all have different tolerances for risk, and as long as we understand the risks associated with each investment each investor can decide if they want to accept the risk for the possible return opportunity. So, in the case of the investment both could be right again.

Art and investing are also linked by something inside each one of us, OUR EMOTIONS. The truly gifted artist will draw upon their emotions when creating their work; it may be how they can express themselves. In investing, emotions also play a big part in our decision making. The two primary emotions that play a part in our investment decisions are fear and greed. Unlike the artists who may use their emotions for creative purposes, our emotions can hinder us in the investment process. Greed can cause us to loosen our inhibitions and invest more speculatively in the good times, thus buying high. Fear may cause us to panic in times of uncertainty and volatility, thus leading us to sell low.

This booklet is designed to provide you with sound, long term investment principles so that perhaps you can avoid some of the pitfalls on your path to wealth creation. I would love to say that these are all original ideas, but they are not. Almost all of these concepts have been around for decades; all we have done is combine them into one document. Investment vehicles have changed dramatically over the years. New investment opportunities are constantly popping up. The art of successful investing, though, has not changed since the time of Ben Franklin. I hope you find this information both timely and useful. Good luck on your journey to “Financial Peace of Mind”.

\*The interpretations and organization of these ideas are the confidential thoughts of Pat Reding and does not represent the opinions of Berthel Fisher & Company Financial Services, Inc.

## Timeless Tip #1

### **Accept that uncertainty is the rule, not the exception.**

When investors hear the word “volatile” being used to describe the markets their reaction is usually negative. The reason for that is the term volatile is typically used to describe a market that is dropping rapidly. Volatile then becomes synonymous with a falling stock market. Of course the reason that the stock market is falling is because there is so much “uncertainty”; uncertainty over interest rates, inflation, economic growth and so on. The truth be known, the stock market is almost always volatile. You may be asking yourself, how can that be? The stock market generally goes up more than it goes down. How then can it almost always be volatile?

When you look up the word volatile, and its close cousin volatility in the dictionary you will find this when it is used to describe movement: fickle; apt to change; lively; explosive.

That definition does not indicate a positive or negative direction, only movement. Thus when the stock market goes up or down rapidly it is demonstrating volatility. Investors however, only become concerned when it is negative volatility. And of course as previously stated, quite often the reason for a rapid drop in the market is because of uncertainty. But if the market goes down because of uncertainty then it only makes sense to assume it goes up with the same uncertainty. If you don't believe me on that one then think of it like this, if investors could be certain of all the factors that would drive the stock market up and then when they became uncertain the stock market would drop, then making money would be pretty easy.



The key point here is that in the short run no one knows for sure what is in store, uncertainty is the rule, not the exception, so keep these factors in mind:

#### **1) Look beyond short term fluctuations.**

In the short run the stock market can be quite volatile. However, when you step back and look at the longer term performance it has been quite impressive. If your investment time horizon is long term then try to think long term.

#### **2) Be patient.**

Don't abandon a well thought out investment program simply because something you can't control, namely the markets, are not cooperating. Keep in mind that the best time to plant a shade tree is 25 years ago. Some things just take time to develop.

#### **3) Try to tune out some of the noise.**

In today's instant age of communication you are constantly being bombarded with information, much of which can be contradictory. All those “talking heads” you hear on TV, radio and the internet who profess to know what is going to happen are probably just as accurate as all the ones who have come before them. Let's just say they make weather forecasters look good.

## Timeless Tip #2

### **Focus on what is important and knowable**

Lots of things in life are important. Will it rain tomorrow and cause my son's game to be cancelled? Am I eating right and exercising enough? Is the stock market going up or down in the next six months? At some level these are all important to me. Chances are I'll watch the weather forecast to determine if the game will be played. I'll also probably read the various articles I come across to see which new fruit or vegetable I should add to my diet. I'll also read the forecasts for the stock market, interest rates, inflation and economic activity. Will I know for sure if it will rain tomorrow, or if pomegranate juice will really reduce my risk for heart disease? Probably not; or at least not until it is too late. Conversely, will we know for sure what the stock market will do, or where interest rates or inflation will be in six months? The answer again is no.

Thus it would seem that spending an inordinate amount of time trying to forecast things we cannot know for sure is a waste of time. It is not that my son's game, or my health or the action of the markets are not important, it is just all the factors involved are to some degree unknown. Instead of spending our time on things that are important but unknown perhaps our time is better spent on things both important and knowable. What are these things?



#### **1) What are your investment objectives?**

Are you saving for the down payment on a new house or investing for your child's education, your retirement or some combination?

#### **2) What is your investment time horizon?**

The length of time until you will need to use the money you are saving or investing will make a big difference in how it should be invested. The longer the time horizon the more aggressive you can be because you have time on your side if you experience short term drop in your portfolio value.

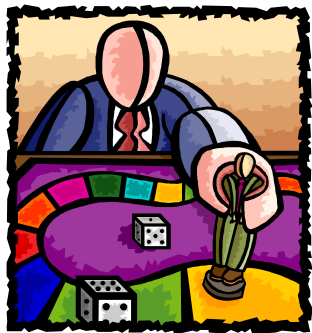
#### **3) What is your tolerance for risk?**

Determining your risk tolerance is one of the most difficult challenges investors face. The rule of risk versus reward says that the more risk you are willing to take the higher your return opportunity will be. The problem is most investors are willing to take more risk or wish to shun risk at precisely the wrong times. Namely they want to take more risk after a period of out-performance (prices high) and avoid risk after a period of under-performance (prices low). Thus it is important to understand both the potential return and risks associated with the investments you are considering.

## Timeless Tip #3

### **Have an Investment Strategy**

Lewis Carroll said “If you don’t know where you are going, any road will get you there”. Although that quote, uttered in the 1800’s, was not directed at today’s investors it certainly could have been. Far too many people do not have a firm grasp on what they are trying to accomplish and then equally as important a plan to get it done. In Tip #2 we talked about identifying the things both important and knowable such as investment objectives, risk tolerance and time horizon. In Tip #3 we will drill down a little deeper and begin building your investment strategy. Developing your investment strategy will normally involve some give and take. You may want to retire at age 62, buy a condo in Florida and provide for 100% of your children’s education. However, you may not have the financial resources to accomplish all of those goals. Thus the need to have a long term investment strategy put in place and the sooner the better. The first step in this strategy:



#### **1) Establish your financial goals.**

Retirement, educating children, buying a business are all typical financial goals. But you need to know more than just that you want to retire, more specifically you need to know when do you want to retire and in what sort of lifestyle. Will you be moving, buying property or selling? The same goes for educating children or grandchildren. These factors and many more will go into your plan.

#### **2) Prioritize your goals.**

Once you have established your financial goals you need to prioritize them. As mentioned earlier, your goals may be to retire at 62, buy a condo in Florida and fund 100% of your children’s educations. But what do you do if it doesn’t look like those goals are all feasible? Do you work a few more years, forgo the condo, or have the kids borrow some money for college?

#### **3) Develop an asset allocation strategy.**

Asset allocation is simply determining the percentage of your investment dollars that should be allocated to the various asset classes, such as stocks, bonds, real estate, commodities, and cash. In addition, within each of the asset classes such as in stocks the portfolio may include both domestic and foreign holdings as well as large company and smaller company stocks. The asset allocation of each portfolio will be determined primarily by the risk tolerance of the client and the time horizon for the investment objectives.

#### **4) Select the individual investments for your portfolio.**

Although this is the final step in the investment strategy process it is quite often the first thing investors want to discuss. Most people want to own the next hot stock - it is only natural. But before you pull the trigger on that next buy you might want to take a step back and find out how much, if any, of that stock should be in your portfolio. Or, if you need to sell something else you already own before you buy it. The reason for this is if you don’t pay attention to your asset allocation you may end up being overly concentrated in one asset class, or even worse, one sector. Do you remember the great technology boom then ensuing bust of the late 90’s and early 2000’s?

## Timeless Tip #4

### **Engage in Healthy Investor Behavior**

The natural instinct of most investors is to buy stocks when it feels good (prices are high) and to sell stocks when it become uncomfortable (prices are low). Thus, maintaining a long-term investment strategy is far easier said than done, especially if you have poor short-term results early in the process. When faced with poor short-term results, many investors begin to engage in unhealthy behavior such as abandoning their long-term strategies, chasing after hot performing sectors, or trying to time the market.

When constructing a long-term financial strategy, it is important to recognize and acknowledge that, even though painful and difficult, periods of disappointing short-term results are not only possible, but most likely inevitable. Investors who recognize this fact and are prepared for it may be less likely to abandon their investment strategies during such periods. The ways to combat the urge to engage in unhealthy investor behavior include:

**1) Expect periods of disappointment.**

Realize right from the start that at some point in your investment plan you will experience disappointing short-term results. It may occur early or it could be years down the road, just realize sooner or later it will happen.

**2) Time is more important than timing.**

All too often we spend too much time trying to decide if now is the right time to invest. The problem is, you'll never know for sure until after the fact. The reality is timing the market is incredibly difficult. Instead of trying to time the market try to remember that **time in** the market is more important than timing the market.



**3) Utilize dollar cost averaging.**

Dollar cost averaging is an investment technique intended to reduce the exposure associated with making a single large investment purchase. The idea is to make fixed dollar investments at regular intervals (e.g. monthly, quarterly) in a particular investment or portfolio. In this way, more shares are purchased when prices are low and fewer shares bought when prices are high. Dollar cost averaging does not ensure a profit; it only reduces the risk of a short term drop in market value.

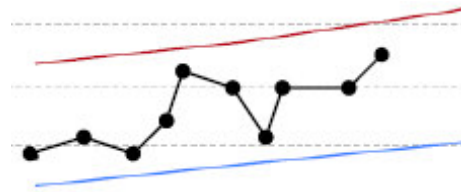
**4) Diversify, diversify, diversify.**

Otherwise known as asset allocation, diversification can also help reduce the risk in an investment portfolio. A properly diversified portfolio could include a combination of stocks, bonds, real estate, commodities and cash. The amount, if any, of each of those investment classes will depend upon the individual investor's risk tolerance and time horizon. The premise of diversification is to spread the risk among a variety of investments so as not to be dependant on one individual investment or asset.

*Past performance is no guarantee of future results. Diversification cannot eliminate the risk of investment losses. Dollar cost averaging does not assure a profit or protect against a loss in a declining market. Such a plan involves continuous investments in securities regardless of fluctuating price levels. An investor should consider their financial ability to continue the purchases through periods of low price levels*

## Timeless Tip #5

### **Continually Monitor Your Progress**



A great financial plan is designed during one moment in your life. That plan may have numerous contingencies for things that may happen during your lifetime. Unfortunately we can not foresee everything that may be in store for you. Chances are at some point in the future you may; change jobs, get married, get divorced, have children, have grandchildren, buy a business or sell one, inherit money, or have health issues. Any one of those may affect your financial future and a combination of two or more could have profound effects. Thus it is extremely important to monitor your financial progress and if necessary make changes when needed.

#### **1) Try to remain flexible.**

We may have our hearts set on retiring at 62 or funding all of our children's education, but we have to try and be realistic. To ensure our long term financial health we may need to make adjustments to our goals.

#### **2) Judge results as progress towards achieving your goals.**

All too often investors lose sight of the big picture, which is achieving their goals. They become fixated on the performance of one or more individual investments, or they may even become discouraged because of short-term performance. It is important to remember in a diversified portfolio there will often be times when one or more investments don't seem to be doing well. Rather than concentrating on each individual component, try instead to measure your success as moving towards achieving your goals.

#### **3) Set realistic return expectations.**

The rate of return an investor can reasonably expect over time is proportionate to the amount of risk that investor is willing to assume. A more aggressive investor over time should have a higher return expectation than a more conservative one. That is the basic premise of risk versus reward. The problem that sometimes comes up is that after a prolonged period of out performance in a riskier asset class (e.g. stocks) the conservative investor becomes dissatisfied with their lower return. Often times the more conservative investor expects the return of the stock market in the good times but doesn't want the risk in the bad times. Unfortunately it doesn't work that way. Investors need to realize that their returns should be compared to a benchmark that resembles their portfolio and not to a stock market index such as the S&P 500 or Dow Jones Industrial Average. Thus if their portfolio is 50% stocks and 50% bonds then compare their returns to a similar benchmark.

Right about now you may be saying to yourself, what do I do now? Too many of us leave life's most important decisions to chance. But there is a better way to envision the future.

## Envision Tomorrow, Today!!

Envision is an innovative advisory process that helps you to better enjoy your life today and pursue realistic goals for tomorrow. Combining goals based guidance with sophisticated statistical modeling; Envision creates an effective, easy to understand process for achieving your most important goals, such as:

- The age you want to retire
- The annual income you want in retirement
- Education funding for children or grandchildren
- Dreams and major purchases
- Your estate and legacy

For each of these goals, you'll determine an ideal goal versus an acceptable goal. Next we will work with you to prioritize and decide which goals are most important to you, including going through some "what if" scenarios.

- What if you worked part-time after retiring?
- What if you bought a bigger house? Or sold your existing house?
- What if you wanted to leave a legacy to a favorite charity?

We will then analyze your financial situation and goals and present you with advice and guidance, including investment recommendations as well as the level of confidence that you have in achieving your goals. If the confidence level is too low we will talk with you about adjusting your goals, your savings rate or your investment portfolio.

Remember, your situation is not static – as life goes on, we will be there to monitor your plan, provide guidance, and always ready to answer that key question: "How am I doing?"

To begin the Envision process, complete the questionnaire and provide us with the items on the Envision checklist. Once you have completed the questionnaire, please return it to our office via email: [pbh@berthelrep.com](mailto:pbh@berthelrep.com) or mail at:

Berthel Fisher & Company  
Attn: Pat/Bo  
219 E. State St.  
Algona IA 50511

**If you have any questions call us at 800-288-6669.**



Registered representative of and securities offered through Berthel Fisher & Company Financial Services Inc. (BFCFS)  
Member FINRA & SIPC Envision is independent of BFCFS.

Envisions' simulation model incorporates assumptions on inflation, financial market returns and the potential relationship between these variables based on an analysis of historical data. Using Monte Carlo simulation and data provided by the Center for Research in Securities Pricing, Envision simulates 1,000 different potential outcomes over a lifetime of investing. The varying historical risk, return, and correlation between the assets is based on indices over several market cycles. If the indices do not provide sufficient historical data to gauge asset class performance, we may use the performance statistics of related asset classes. Unlike financial planning, Envision does not include a detailed analysis of insurance, real estate investment or savings strategies. It also does not cover estate and tax planning.

## PERSONAL INFORMATION

Name:	Spouse's Name:
Mailing Address:	
State of Primary Residence:	State of Primary Residence:
Date of Birth (mm/dd/yy):	Date of Birth (mm/dd/yy):
Total Annual Earned Income:	Total Annual Earned Income:
Filing Status:	<input type="checkbox"/> Single <input type="checkbox"/> Married Filing Jointly <input type="checkbox"/> Married Filing Separately
Residence Status:	<input type="checkbox"/> US Resident <input type="checkbox"/> Non-US Resident

## Investment Objectives Analysis

1. What is your main goal?  
1-Most Important, 6-Least Important  
 Fund Retirement  Preserve Existing Net Worth  Fund a Major Purchase  
 Finance Education of Children  Build Wealth  Other \_\_\_\_\_
2. Over what time frame do you plan to invest this money?  
 Less than 3 years  5-7 years  
 3-5 years  7-10 years  More than 10 years

## Primary Investment Objective for Account

3. Which of the following statements applies to your current income needs?  
 **None** – Not expecting to need income from the portfolio for several years; investment strategy should emphasize growth.  
 **Some** - interested in current income from the portfolio, but willing to accept a lower level of current income in order to have potential for long-term growth.  
 **Significant** – Primary investment goal is income. Willing to accept less potential for long-term growth in order to seek higher current income.
4. Which of the following statements best describes your acceptable level of portfolio risk?  
 **Less accepting of Risk – Conservative**  
Very concerned about short term changes in the value of the portfolio, and would like to minimize the chances of big short term swings.  
 **Accepting some degree of Risk – Moderate**  
Concerned about short term fluctuations in the value of the portfolio, but will tolerate moderately large short term swings in exchange for higher long term return potential.  
 **More accepting of Risk – Long Term**  
Not very concerned about short term fluctuations in the value of the portfolio so long as the portfolio is positioned for strong long term returns.

## LIFE GOALS

1. I would like to plan for retirement at age \_\_\_\_\_ (acceptable), but I would be willing to take action (such as saving more or reducing my retirement spending goal) if it would mean I could retire at age \_\_\_\_\_ (ideal).  
If already retired, check here and skip to question 3:
2. My spouse will retire at the same time I do:  Yes  No  
If no, my spouse would like to target retirement at age \_\_\_\_\_.
3. How would you like us to estimate your retirement spending needs? (Check one)  
 We would like to plan for after-tax, annual retirement spending of \$\_\_\_\_\_ (acceptable), but if we could increase our spending to \$\_\_\_\_\_ (ideal) a year, we would like to consider that possibility.  
 We would like you to estimate our retirement spending based on our current after-tax income and what is normally needed to maintain our lifestyle.
4. Please tell us which best describes your attitude about Social Security:  
 If possible, we would prefer to not be dependent on Social Security.  
 We would like to include estimated Social Security benefits in our Envision Investment Plan.  
 I am currently collecting Social Security in the amount of \$\_\_\_\_\_ yearly. My spouse is receiving \$\_\_\_\_\_.  
 I expect to receive Social Security in the amount of \$\_\_\_\_\_ yearly. My spouse will receive \$\_\_\_\_\_ when eligible.
5. We would like to have an estate worth at least \$\_\_\_\_\_ (acceptable), but if we could increase that to \$\_\_\_\_\_ (ideal) with minimal impact on our other goals, we would like to consider that possibility.
6. To achieve more important goals, we would be willing to increase our current savings by \$\_\_\_\_\_ (acceptable) per year, but if possible we would rather decrease our current savings by \$\_\_\_\_\_ (ideal) per year to improve our current lifestyle.

## EDUCATIONAL GOALS

Please complete the following information for each individual member of the household for whom you wish to plan to fund educational goals. Envisions defaults to public, in-state college expenses, unless you indicate that you would like to target a private college or specific institution.

Name\*: \_\_\_\_\_

Name\*: \_\_\_\_\_

Date of Birth \_\_\_/\_\_\_/\_\_\_ Start Age: \_\_\_  
Years in School\*: \_\_\_\_\_

Date of Birth \_\_\_/\_\_\_/\_\_\_ Start Age: \_\_\_  
Years in School\*: \_\_\_\_\_

Type of College:  Public  Private

Type of College:  Public  Private

Fund at least \_\_\_\_\_% (acceptable) but if possible I'd like to fund as much as \_\_\_\_\_% (ideal).

Fund at least \_\_\_\_\_% (acceptable) but if possible I'd like to fund as much as \_\_\_\_\_% (ideal).

\*Indicates required fields.

## OTHER GOALS – Please indicate specific spending goals that you would like to include in this Envision Investment Plan.

Description (i.e. travel, new car, boat, etc)	Annual Amount	Net or Gross	Whose Age?	Starting Age or Event <small>(Specific Age: Now, Retirement, Death, or 2<sup>nd</sup> Death)</small>	Ending Age or Event	Annual Increase
--	------------------	-----------------	---------------	--	------------------------	--------------------

\$

\$

\$

\$

*Do not include basic retirement income goals, estate or education goals. If you don't enter an annual increase, the goal will grow at the assumed rate of inflation.*

## OTHER INSURANCE

Client

Spouse

Do you have a disability income policy?

Yes  No

Yes  No

Do you have a long-term care policy?

Yes  No

Yes  No

Do you have life insurance?

Yes  No

Yes  No

## ENVISION CHECKLIST – THINGS TO PROVIDE:

- Investment Accounts** – Current statements showing value and positions (stocks, bonds, mutual funds, CD's, money markets, etc.)
- Bank accounts** – Current statements showing value and positions (CD's, money markets, etc.)
- A list of your other assets** – Homes, personal property, rental property, collectibles, etc.
- A list of your liabilities** – Debts, mortgages, loans, etc.
- Social Security information** – Statements you may have received with an estimate of earnings at retirement.
- Current Contributions** – 401k, IRAs, savings accounts, etc.
- All sources of income** – Salaries, pension plans, annuities, trust funds, rental income, etc.

### Questions I will ask you:

- When do you and your spouse want to retire?
- How much money you will need to live on at retirement?
- What are your goals? (travel, new cars, boat, vacation home, etc.)
- Do you anticipate any inheritances?