Not every investment strategy is a good fit for your life. A little due diligence goes a long way toward moving you closer to your financial goals.

INVESTING DUE DILIGENCE

Don't be afraid to ask questions

Overview

You don't need to turn far for financial advice. After all, a quick internet search yields millions of results covering every money-related topic. Enter the term "financial planning" into Google, and you'll get more than a billion pages to explore.

But in this sea of content, how can you find practical investing advice? And how can you determine what strategies work for you? Unfortunately, most websites don't have disclaimers or flashing warning signs to let you know if the information they contain is credible or whose portfolios they might fit.

Educating yourself on finance- and investment-related topics is always a great idea. But in your search for knowledge, be aware that online content can be plagued by inaccurate information and investing strategies that are inappropriate for your situation. Here's a look at a few other things to know in your search for investing strategies to help you reach your goals.

Work With Someone You Trust

While online content can provide education and investing ideas, understanding if those ideas apply to you and implementing them is best left to a professional investment advisor. Advisors must pass certain exams and meet criteria for both industry certification and state licensing requirements. They're also required to complete ongoing continuing education to stay updated on investing rules, regulations and products.

Even if you choose an investment advisor based on a referral, it's important to conduct your own due diligence to ensure he or she is licensed and that they haven't mishandled money in the past. Consider tapping these resources to learn more about an advisor:

- BrokerCheck – searchable database from the Financial Industry Regulatory Authority (FINRA)
- Investment Adviser Public Disclosure – searchable database from the Securities and Exchange Commission (SEC)
- Contact your state regulator with the North American Securities Administrators Association (NASAA)

If you've been working with an advisor for a while, it's still a good idea to do your due diligence every now and then to make sure nothing has changed with the advisor's status.

Evaluate Your Investment Decisions

Once you're confident that you are working with a knowledgeable and trustworthy advisor, your job isn't over. It's a good idea to evaluate the recommendations and strategies you and your advisor develop for your portfolio.

Your advisor may introduce investment ideas or options you have never heard of or aren't quite sure how they work. When this happens, you might hesitate to ask questions for fear of looking unknowledgeable or uninformed. But trust us: Your advisor wants you to ask questions! A trustworthy advisor wants you to feel confident that you understand what the investment does and how it fits into your overall plan. If you don't ask questions, they can't fill in the blanks and make sure the selected strategy makes sense.

Here are a few questions you might want to ask about a proposed strategy:

1. Does this investment help me pursue my goals?

Your portfolio is designed to help you work toward your personal goals. Those goals might include living a specific lifestyle in retirement, creating multigenerational wealth or funding college for your kids or grandkids. Each individual's goals are different — and your advisor can work with you to tailor your portfolio strategies to get you closer to reaching them.

Among the first things your advisor will probably ask are questions about your family, your finances and your goals for the future. And they won't just ask you once; they may ask you at annual reviews or in between meetings if anything has changed. They're asking this question because they want to make sure your investments are still aligned with your life. If they're not, they'll likely recommend some portfolio adjustments that are a better fit for your new direction.

2. What are the fees associated with this investment?

Every investment has fees, including broker fees, trading fees and/or expense ratio (a percentage you are charged for owning a mutual fund or exchange-traded fund (ETF)).1 Some investments carry high fees, while others — like indexed ETFs and bond funds — may have relatively low fees.[2]

Since fees can cut into your overall returns, it's prudent to know how much your investments cost. Your advisor should discuss fees with you when exploring new investment options or when reviewing your portfolio. They may make recommendations to replace investments if fees increase or are preventing you from reaching your financial goals.

3. Does the level of risk match my overall goals and risk tolerance?

How much risk you are willing or able to take varies from person to person. It's based on several factors: how much money you have saved, your age, your desired lifestyle and how much risk you're willing to handle. (Some people are much more risk-averse than others.)

Your advisor can help identify the major risks associated with a particular investment or strategy. These might include:[3]

- Market risk – Overall market performance may decline
- Credit risk – Fixed income might drop if a company is unable to repay capital or interest to an investor
- Interest rate risk – Increasing or decreasing interest rates may negatively impact an asset
- Inflation risk – Rising costs could reduce your purchasing power over time
- Liquidity risk – Your money may not be accessible if and when you need it

It's always good to evaluate your personal circumstances and determine how much money you can afford to lose if markets drop. One way to help manage your risk is to diversify investments and/or include financial products that provide guaranteed income, such as annuities or fixed-income bonds.

4. Can I access my money in this investment if I need it?

When life happens, you may need access to invested funds. Some investments allow for early withdrawals while others don't. And some investments may charge you a penalty for accessing your money before it's time.

For example, Roth IRA owners can take distributions from their accounts without penalty after age 59 ½. However, you also may be able to access your money penalty-free if you meet certain criteria:[4]

- You've owned the account for five years
- You've become disabled
- You use the money for a first-time home purchase (up to $10,000 maximum)
- You pass away (and the money goes to your beneficiary)

The Wealth Report

Final Thoughts

It's *your* money — and you should feel comfortable with how it's invested. If an investment recommendation doesn't feel like a good fit, ask your advisor to consider other options. You should feel confident that your advisor understands not just your investment goals but also your comfort level with the risks you take with your money.

Many folks have experience and knowledge in their respective fields, and the same can be said for investment advisors. Often the best way to create an investment strategy is to combine professional financial advice with personal knowledge and education. The more you learn, the more confident you will be about your investment decisions.

[1] James Royal, Ph.D. Bankrate. Oct. 2, 2024. "What is an expense ratio and what's a good one?" https://www.bankrate.com/investing/what-is-an-expense-ratio/. Accessed Oct. 4, 2024.
[2] SEC.gov. "How Fees and Expenses Affect Your Investment Portfolio." https://www.sec.gov/investor/alerts/ib_fees_expenses.pdf. Accessed Oct. 4, 2024.
[3] James Chen. Investopedia. May 16, 2024. "Risk: What It Means in Investing, How to Measure and Manage It." https://www.investopedia.com/terms/r/risk.asp. Accessed Oct. 4, 2024.
[4] Charles Schwab. Feb. 22, 2024. "Must-Ask Questions: Roth IRA Withdrawals." https://www.schwab.com/learn/story/must-ask-questions-roth-ira-withdrawals. Accessed Oct. 4, 2024.

Any references to guarantees or lifetime income generally refer to fixed insurance products, never securities or investment products. Insurance and annuity product guarantees are backed by the financial strength and claims-paying ability of the issuing insurance company.

Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.

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