9 INVESTMENT PITFALLS

High Net-Worth Investors Should Avoid

OUTLOOK
WEALTH ADVISORS, LLC

Few words better characterize today's financial markets than uncertainty. We believe investors need to adjust their expectations in order to adapt to the road ahead. It seems to be the nature of today's markets to subject investors to price fluctuations and confusing global events that test emotional fortitude at every turn. Experience has taught us that successful investing requires discipline and the patient execution of a long-term strategy, most especially when it is emotionally difficult. In fact, that is usually the time when opportunities are greatest.

In order to help our clients chart a course in uncertain waters, we've compiled a list of critical mistakes investors should avoid:

MISTAKE #1:
EXPECTING A SMOOTH RIDE

You probably remember the heydays of the 90's when many investors felt like they were on an elevator heading for the top floor. Today's markets are not like that, and it's a mistake to think that we will return to those conditions any time soon. However, even in a choppy market, with the appropriate mix of investments, there is potential for money that could be made.

In order to help navigate the turbulent markets of today, it is critically important to structure your portfolio to seek to minimize declines in down markets. This definitely does not mean to cash out when you lose confidence and re-invest when you begin to feel better about the markets (See Mistake #2 about the perils of trying to time the market). This means that during periods of market turbulence, you may need to adjust your mix of investments. It is also important to remain flexible in your investment selection, so as to take advantage of mispriced assets in a way that can both help to manage risk and increase return potential.

However, both these techniques require active management. Regardless of your investor profile or long-term investment goals, making the most of today's markets and holding onto your investment returns will require conviction in your investment strategy. Retreating and starting over each time is almost a sure path to ruin.

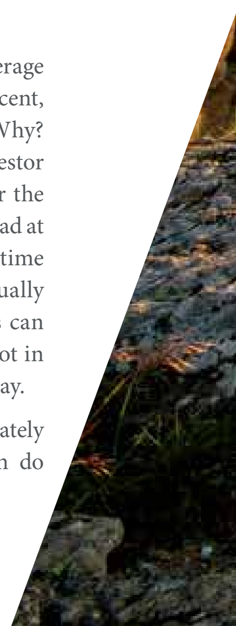
MISTAKE #2:
TRYING TO TIME THE MARKET

When markets are rallying or pulling back, it's often very tempting to try and seek out the top to sell, or the bottom to buy. The problem is that investors usually guess wrong, potentially missing out on the best market plays. Does the cost of trying to time the market make a big difference in your returns? You bet it can.

For example, between 1986 and 2005, the S&P 500* compounded at an annual rate of 11.9 percent –even while weathering Black Monday, the dotcom bust, 9/11, and various booms and busts. Over that period, $10,000 invested in 1986 would have grown to over $94,000 (not taking into consideration fees and expenses inherent to investing.

However, according to a recent Dalbar report, the average investor's return during that period was just 3.9 percent, meaning that same $10,000 grew to just over $21,000. Why? One reason is trying to time the market. The average investor may miss out because their money tends to come in near the top and come out at the bottom. Investors are notoriously bad at picking the right time to enter or exit investments; by the time an opportunity is on their radar, the "smart money" is usually nearly ready to get out. The problem is that equity gains can often be made in a very short amount of time. If you're not in the stock when it moves, you may miss out on the whole play.

The bottom line is that it's virtually impossible to accurately find the top or bottom of the market, and no one can do it consistently.



* The S&P 500 is an unmanaged index which cannot be invested into directly. Past performance is no guarantee of future results.

MISTAKE #3:
TAKING TOO MUCH RISK

Not only do many investors pay the timing penalty, they may also pay a penalty for having too much risk in their portfolios. During the bull market days of the late 1990s and early 2000s, money poured into equities, often into risky tech and internet stocks. The boring "value" stocks trading at low earnings multiples saw many of their investors fleeing towards higher returns. However, during the terrible bear market that followed 9/11, many of those "boring" value stocks weathered the storm, while the bottom fell out of the tech industry. Investors who took on too much risk, not wanting to miss out on the dotcom boom, most likely saw their portfolios take a severe beating.

One of the major differences between amateurs and investment professionals is that the professionals seek to understand and manage portfolio risk. Prudent investors consider the risks contained in an investment position and cut down their position and market exposure if they determine that their portfolio contains too much risk.

Future markets may still be volatile, and holding too much risk has the potential to spell disaster for your financial future. A few questions to ask yourself when evaluating your portfolio:

- Are you too heavily invested in one asset class, sector, or geographical region?
- Do you hold too many alternative investments?
- Do you hold many of the same investments or overlap too much?
- Is your portfolio correctly structured for your long-term goals, investment horizon, and appetite for risk?

Portfolio risk can be insidious. You might think that by holding a diverse mix of stocks, bonds, and alternatives that you are adequately managing your risk, but it's very possible that your investments are correlated and may react to a market decline in the same way. One of the best services an investment professional can provide is a clear-eyed evaluation of risk and an asset allocation structure to manage it while still helping you pursue your goals. If you are concerned that your portfolio may carry too much risk, please feel free to contact us for a consultation.

MISTAKE #4:
TAKING TOO LITTLE RISK

Today's markets can be volatile and investors are playing it safe, fearful of losing portfolio value. However, a portfolio containing too little risk can leave you feeling safe but sorry as you miss out on the important market rallies. During periods of turbulence in the markets, many investors tend to flock to low-risk investments like U.S. Treasuries and cash. This aversion to risk can have potential adverse effects on long-term investments, as too many fixed-rate investments put a cap on your portfolio's upside. Inflation is a serious concern in long-term investing and too little growth in your investments can leave you with a shortfall in your retirement years.

In a reaction to 2012's turbulent markets, investors pulled more than $28 billion from U.S. stock investments, even as the

S&P 500 rallied more than 18 percent. It's not hard to see why wary investors want to take a more cautious approach, given economic turmoil and the cloud of uncertainty surrounding taxes. However, by trying to reduce the chances that their portfolios will suffer large losses, investors may be trading one type of risk for others, including inflation risk, high valuations, and greater-than-expected volatility.

While it is true that equities have greater loss potential than short-term fixed-rate investments, they also have a greater potential for gain. For many investors, hunkering down in safe haven investments is a luxury they simply can't afford. With inflation eating away at cash every year, most investors need at least some growth-oriented investments.

To know whether you should be taking on more risk, it's important to speak with your financial professional and ask yourself the following questions:

- Do I have enough growth-oriented investments in my portfolio?
- Can I afford to take short-term losses for long-term gain?
- Could I afford to live on Social Security or other income in the event my accounts decline in value?
- How comfortable do I feel taking on more risk to potentially achieve higher investment returns?
- Could I live on my investments without taking on additional risk?

MISTAKE #5:
MAKING EMOTIONAL INVESTMENT DECISIONS

Emotional decision-making can wreak havoc on the most carefully designed investment plan when markets swing. A large number of investors lost money in the mortgage-meltdown crash of 2008. Many cashed out near the bottom, fearing that the markets themselves were collapsing, and, even as markets have experienced rally, some investors still have their money sitting on the sidelines. The scars of the crash, when the markets experienced serious intra-day swings, run deep.

A 2011 study by benefits company, Aon Hewitt, showed that boomers are especially at risk of making emotional investment decisions. Study results showed that those nearing retirement become very loss averse, and are prone to bailing on the market during declines. The problem is that these are the investors who may have the most to lose by making poor investment decisions.

According to the study, the share of 55 to 60-year-old workers with less than 5 percent of their money in stocks rose from 9 percent at the end of 2007 to 14 percent at the end of 2008. Meanwhile, for those 60 plus, the percentage rose from 13 percent to 18 percent, and for the 50 to 55 age cohort, it climbed from 7 percent to 11 percent. Instead of seeing the big picture, taking advantage of the volatility, and rebalancing, many of these investors cashed out, locking in their losses; worse, most of them did not get back in for the 2009 rally. While it can be difficult to rein in emotions when your life savings take a beating, running for the exits is sometimes the worst thing you can do.

There are two emotions that you need to confront whenever you make financial or investment decisions: fear and greed. Fear can cause us to abandon an investment strategy when the outcome is not what we want. Greed can cause us to chase investment fads and take on too much risk. It can be hard to avoid feeling these emotions when making important financial decisions; however, you can recognize them, and engage your rational mind to overcome them.

One of the major benefits of working with a financial professional is that it is our job to act as the voice of reason when emotions run high. When major investment decisions are only a click away, investors may give in to emotional decision-making and pay the price for their short-term thinking. When markets decline, remember that we are always available to answer questions, provide reassurance, and show you the opportunities that volatile markets provide.

MISTAKE #6:

FAILING TO DIVERSIFY

Warren Buffett once said that diversification* is a "protection against ignorance," meaning that when it comes to investing, there's no way to know everything about an investment and no way to predict the future. Even the Sage of Omaha makes poor investment decisions, and diversification helps prevent one error or bad investment from taking down his whole portfolio.

The first step of a diversification* plan consists of diversifying between asset classes. This means maintaining a good mix of stocks, bonds, cash, and perhaps some other types of alternative investments like real estate, or other investments that are a good fit for your goals and investor profile. The problem is that investors may chase performance by aggressively investing in a single class of investment: stocks when the equity markets are rallying, and bonds or cash during a market decline. This lack of diversification can play havoc with a portfolio during times of market turbulence.

The second part of a properly diversified portfolio is diversifying within an asset class. One of the most critical mistakes many working investors make is to have too much (more than 10-15 percent of their portfolio) in their company's stock, which can spell disaster if it takes a turn for the worst – imagine, losing your job and your retirement savings in one fell swoop. For example, it's important to have a good mix of small-cap, large-cap, international, and sector-diverse equities in a portfolio.** While a certain stock or sector might be affected by a market decline, a gain in another might offset it.

MISTAKE #7:

FOCUSING MORE ON RETURNS THAN MANAGING RISK

Chasing performance is one of the biggest errors made by investors. If you take the time to study past performance, you will discover that it is not a reliable way to predict future winners. The growth stocks that were popular in the 90s had been churning out double-digit returns for several years, when they suddenly went south, taking many investors' portfolios with them.

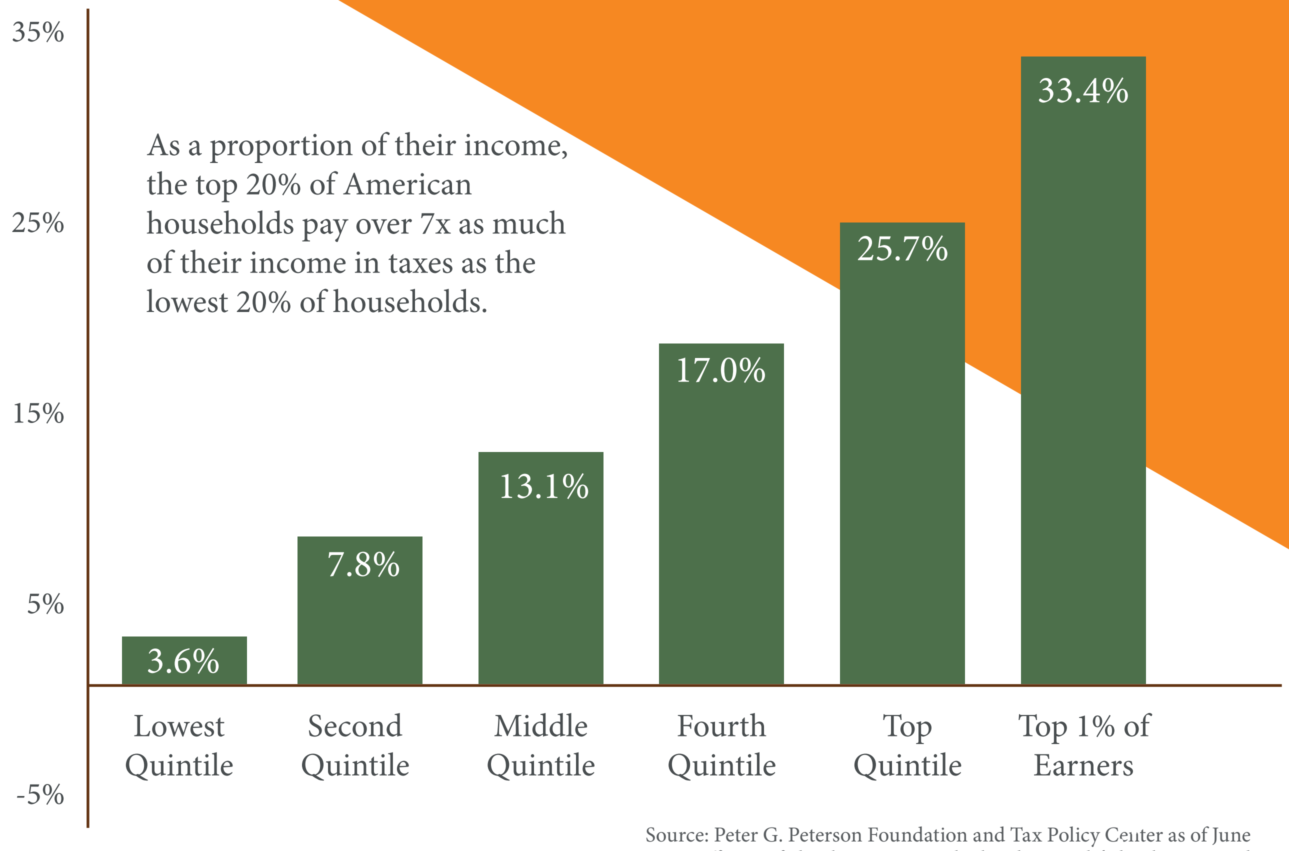
The lesson here is that if a particular asset class has outperformed for three or four years, you can know one thing with certainty: you should have invested three or four years ago. Often, by the time the average investor has decided to invest, the "smart money" has already gotten out while the not-so-savvy money continues to pour in. Don't make this mistake. Stick to your strategy, rebalance, and focus on getting into investments with great fundamentals.

WHILE TAXES ARE NOT SOMETHING YOU SHOULD IGNORE, YOUR INVESTMENT STRATEGY SHOULD BE BASED ON YOUR INVESTMENT GOALS, APPETITE FOR RISK, AND TIME HORIZON.

*Neither diversification nor asset reallocation can ensure a profit or protect against a loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio.

**Alternative investments may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses. Investing in small-cap companies may involve greater risk in price volatility and potential reward than investing in larger, more established companies. International investing presents certain risks not associated with investing solely in the United States. These include currency fluctuations, political risks, accounting procedure differences and the lesser degree of public information required to be provide by non-U.S. companies.

EFFECTIVE FEDERAL TAX RATES (% OF CASH INCOME) 2015



Source: Peter G. Peterson Foundation and Tax Policy Center as of June 2015. Effective federal tax rate is calculated as total federal taxes paid divided by cash income.

MISTAKE #8:
IGNORING THE IMPACT OF TAXES & INFLATION

When looking at investments, one of the key rules to keep in mind is that you should always be looking at the after-tax return of an investment. At first glance, a 5 percent return beats a 3 percent return any day of the week. However, if the 5 percent return were from taxable stock dividends and the 3 percent came from tax-free municipal bonds, then the situation changes. For example, a hypothetical $10,000 investment might be worth $17,908 after 10 years at a 6 percent annual return. However, after accounting for hypothetical state and federal taxes (5 percent and 25 percent, respectively), you would only take home $11,228, pushing your annual return down to just 1.2 percent. It never pays to ignore taxes. *

You should consider the impact of taxes whenever you buy or sell investments, develop a financial plan, discuss your estate or philanthropic plans, or give gifts. Remember that the federal government taxes investment income like dividends, interest, and rent on real estate, as well as capital gains. This is why it's critical to structure your investments in a tax-efficient manner to avoid having the taxman take a big bite out of your gains.

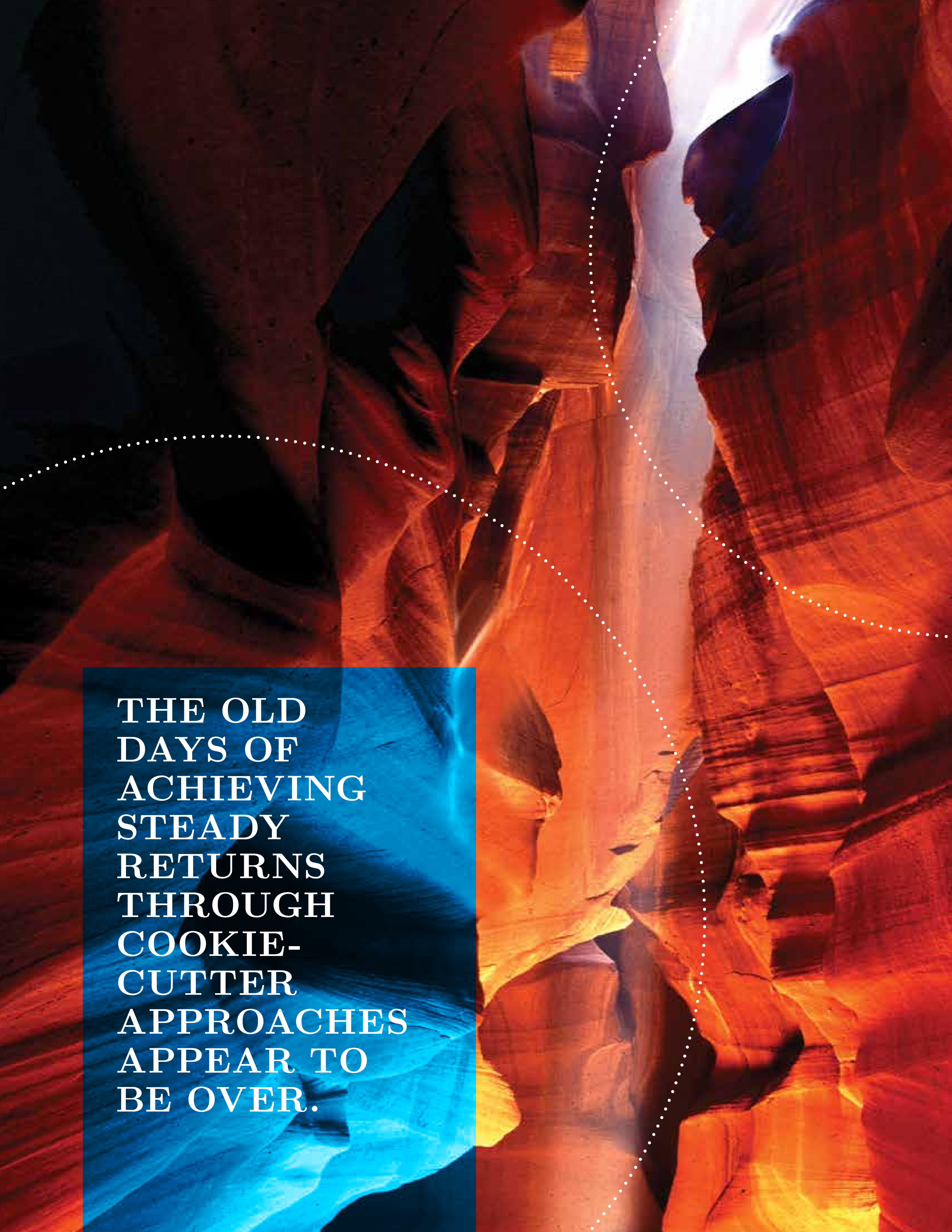
The tax situation for many Americans changed under the American Taxpayer Relief Act of 2012. While the Act retained the tax breaks of the Bush Tax Cuts for most Americans, it instituted higher tax rates at upper income levels. As of 2015, wealthy Americans shoulder a disproportionate amount of the income tax burden.

Though this strategy is not right for everyone, for some of our clients, we are shifting a portion of their investments to assets that generate federally tax-exempt income, such as municipal bonds. * We are also discussing other strategies for reducing the impact of taxes on their income and investments. If you are concerned about the impact of taxes on your future, we strongly encourage you to speak with us and your tax professional to determine what options may be available to you.

Note: While taxes are not something you should ignore, your investment strategy should be based on your investment goals, appetite for risk, and time horizon.

*This example is for hypothetical purposes only. It is not intended to portray past or future investment performance for any specific investment. Your own investment may perform better or worse than this example.

*Municipal bonds are subject to availability and change in price. They are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply.



THE OLD DAYS OF ACHIEVING STEADY RETURNS THROUGH COOKIE-CUTTER APPROACHES APPEAR TO BE OVER.

MISTAKE #9:
NOT SEEKING PROFESSIONAL ADVICE

In a study conducted at Yale and Princeton, psychologists gave students questionnaires asking how they compare with their classmates in a variety of skills and tasks. For example, one question asked: “Are you a more skillful athlete than your average classmate?” The overwhelming majority of students responded that they are above-average athletes, drivers, dancers, students, and so on. Obviously, not all of them can be above average, but their self-perception led them to believe it was so. The same issue of over-confidence exists among investors. It was easy in 1999 and 2000 for investors to delude themselves about their investing skills when a few lucky stock picks quadrupled overnight. However, how many of these genius investors do you think were able to save their portfolios during the bear market that followed? Successful long-term investing requires the skill to position your portfolio for return potential in bull markets and the discipline to stay the course when markets decline. This is when it may be beneficial to have a professional money manager.

One of the greatest potential benefits of professional financial management comes when markets are declining. We educate our clients on the opportunities that market turbulence sends our way and keep them focused on their long-term goals, not on short-term gyrations. As financial advisors, we spend our careers charting courses through turbulent markets and help achieve results for our clients. As professionals, it’s our job to stay on top of ever-shifting economic, financial, and legal issues so that our clients don’t have to.

Quite simply, the old days of achieving steady returns through cookie-cutter approaches appear to be over. We believe successfully navigating the turbulent investing world of today requires training, prudent management, and commitment to a long-term, active investing strategy.

CONCLUSION

Investors who recognize and avoid these nine common pitfalls may give themselves an advantage in pursuing their investment goals. Particularly in times of economic uncertainty and market turbulence, we believe that it is important to consider seeking the advice of a financial professional when investing. A long-term investment strategy requires a personalized plan that takes into account your current and future needs, investment time horizon, and appetite for risk. This helps to ensure that no matter what the markets are doing in the short-term, you know that your investments are working towards your long-term goals. It is critical that you develop the discipline to stick with your plan. That discipline is most important when markets are pulling back and investors' fears can get the better of them.

While it is impossible to predict which direction markets will go, generally, each downside contains an upside potential somewhere else. We specialize in seeking out this upside potential and diversifying* our clients' investments into different asset classes. Our goal in doing this is to seek to help them smooth out the highs and lows, avoid the worst-case scenarios, and take advantage of the many opportunities that exist.

One of the most important benefits of working with a professional financial advisor is the confidence of knowing that you have professionals monitoring the economy and financial markets. We want to assure you that we diligently research current trends and use all the analytical tools at our disposal to help you make solid investment decisions. Above all, we want to help our clients relax and enjoy the lifestyle that they have worked to build, knowing there is an experienced, vigilant hand at the tiller.

If you ever have questions or concerns about your portfolio, we are at your service.

Call today for a free consultation 281-872-1515 or visit outlookwealth.com.

FOOTNOTES, DISCLOSURES, AND SOURCES:

Investment Advisory Services offered through Outlook Wealth Advisors, LLC and SEC registered investment adviser. Insurance products offered separately through Outlook Wealth Insurance Services, LLC.

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.

Past performance does not guarantee future results.

You cannot invest directly in an index.

Consult your financial professional before making any investment decision.

Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. Please consult your financial advisor for further information.

Investing in small- and mid-size companies may involve greater risk in price volatility and potential reward than investing in larger, more established companies.

International investing presents certain risks not associated with investing solely in the United States. These include currency fluctuations, political risks, accounting procedure differences and the lesser degree of public information required to be provide by non-U.S. companies.

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

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We have not independently verified the information available through the following links. The links are provided to you as a matter of interest. We make no claim as to their accuracy or reliability.

[1]Source: Yahoo Finance

[2]http://www.qaib.com/public/default.aspx

[3]http://online.wsj.com/article/SB10000872396390443696604577647742779925240.html

[4]http://www.forbes.com/sites/janetnovack/2011/09/26/study-boomers-making-more-401k-investing-mistakes-than-younger-folks/

[5]http://www.forbes.com/sites/janetnovack/2011/09/26/study-boomers-making-more-401k-investing-mistakes-than-younger-folks/

[6]http://news.morningstar.com/articlenet/article.aspx?id=310230

[7]AARP Investment Return Calculator

[8]The Role of Constructs in Psychological and Educational Measurement Book by Henry I. Braun, Douglas N. Jackson, David E. Wiley; Lawrence Erlbaum Associates, 2002.

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