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Register Citizen (Torrington, Conn.): <https://www.registercitizen.com/business/article/MARKET-MATTERS-I-don-t-know-what-to-order-14568307.php>

MARKET MATTERS: I don't know what to order!

By Joseph Matthews
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Photo: Contributed Photo; Joseph Matthews

A few weeks ago, I was in New Hampshire on business. After our meeting, my partners and I decided to get a bite to eat before our long trip home. It didn't take much effort to get me to agree to stop at a lobster shack favored by locals including one of my partners who grew up in the Seacoast area of New Hampshire.

This roadside restaurant didn't disappoint. It felt like it was right out of character central — picnic table after picnic table in the main room, plastic trays to carry your order after you heard your number called, and massive tanks filled with every size lobster imaginable.

The only problem: I was stumped trying to decide what to order! The reason? The menu on the wall appeared to go on forever. You could get virtually every type of shellfish prepared any way. A virtual smorgasbord of choices for a seafood lover!

I almost immediately started suffering from paralysis by analysis from the choices. Just before it was our turn to order, I turned to one of my partners and told him that I now truly understood how someone enrolling, or for that matter reviewing their 401(k), can feel when faced with so many choices. I was excited about the possibility of a fabulous outcome but distressed about how to make it happen.

Behavioral economists long have recognized that the human mind is only capable of absorbing a limited amount of information while still being able to make decisions that can result in a favorable outcome. An overload of information leads to something these economists call choice overload. This behavioral bias can lead to a [retirement plan](#) participant allocating contributions into all of the choices thinking this will lead to a properly diversified portfolio. (Kind of like me ordering everything off that menu thinking it would make for the dinner of a lifetime when in reality it would have only caused me to waste my resources.)

We're living in a world where decisions about one's finances are seemingly getting more difficult on a daily basis. Global [interest rates](#) seem to be racing to zero percent — or lower. Who would have thought that the yield on the 30-year U.S. Treasury bond would have gotten as low as 1.90 percent this past August?

So what to do? If they are offered by your employer, a very efficient way to allocate your current 401(k) balances and future contributions is to consider a target-date fund. This type of mutual fund is designed to help investors through the wealth accumulation phase of their life while they are working and the distribution phase of their life in retirement when they are using their savings to (hopefully) maintain their pre-retirement lifestyle. By investing more heavily in stocks early on to attempt to generate higher returns and gradually becoming more conservative to avoid as much downside risk as possible, these funds attempt to mitigate the risks of being too conservative early on and too aggressive later in an investor's working years.

For those of you more adventurous, you can create your own asset allocation. This allocation should be consistent with your risk tolerance, investment time horizon and liquidity needs. Remember — proper diversification can help reduce the long-term risk of overexposure to an asset class that can cause significant loss of principal. Although companies paying dividends have been out of favor for some time, don't lose sight of the fact that dividends have represented 41 percent of the total return of large company stocks over the last 100 years. Also, consider focusing on funds that invest in companies that increase their dividends each year and give yourself a potential raise.

As an investor, you need to understand what you are trying to accomplish — nobody else's goals are relevant. After that, you need to align your money with your mission. Because it is critical to get it right as early as possible, sit down with a professional who can help you cut through the myriad of information in order to focus on the information that is pertinent to you. Doing so can cut down on the concerns of trying to get it right and could increase the probability of an acceptable outcome for your family and you. Kind of like when I turned to my partner who had been going to the lobster stand for several decades to ask his opinion. He said, "Go with the lobster roll, it's time-tested and consistently good."

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