The Examiner

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Prudent Portfolio: It's a New Era in Investing

NOVEMBER 13, 2019 BY EXAMINER MEDIA

By Kevin Peters

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In the 1970s, engaged investors would peruse the financial sections of the newspaper over morning coffee, researching investments they owned or those they were considering.

If they noticed an investment was experiencing a sudden shift in value, they might call their broker and have a conversation about the underlying causes of the shift. If there was a major issue, their broker would call the investors, and hopefully, adjust their portfolios.

But times have changed.

Not only has the methodology of investing changed, the reasons behind investing and the uses of investments have changed. Back in the 1970s, and even the 1980s, few investors had instant access to the stock or bond markets.

Today, we have cell phones, e-mail and apps that give immediate access to the markets. If there's a major market shift, especially in times of fairly routine instability, we know about it in real time and can respond accordingly.

Furthermore, the economy of the 1970s was very different. During the early 1970s, the country faced rising interest rates and significant inflation. Today, it's the opposite. Interest rates continue to hover near historic lows. While inflation was at 11 percent in 1974, today it's running just under 2 percent.

What does that mean for investment strategy today?

Today, I believe it is critical for most individuals to diversify their investment portfolios based on class of assets, geography and economic sectors. Stay focused on cash flow and yield. For the time being, investors seem willing to dismiss international events that might otherwise disrupt the markets.

Take a goal-oriented approach to investing. Don't let emotion dictate your investment decisions.

If you're making good progress toward saving for a specific goal, it might make sense to make some modest shifts in the portfolio to reduce risk. Not giving in to psychological pressure caused by market volatility can be tough, but riding out such jitters may be the best course of action. With our quick access to information, remember not to make snap, unresearched decisions.

Have kids? Consider investing for college. The cost of a college education has skyrocketed – soaring 1,375 percent since 1978. As a result, it's common for college graduates to be carrying tens of thousands of dollars in student loan debt.

To help avoid their children graduating with crushing debt, many parents now open 529 college plans. If they begin saving early enough, the money can help them achieve their college savings goals. This investment vehicle didn't exist in the 1970s and '80s. It was created in 1996.

Also, housing costs are higher, compared to income, for the millennial generation, a generation with fewer assets than previous generations at the same point in their careers.

Today, homes across the country sell for roughly four times the median national income, while in the past few decades home prices were closer to three times the household income. The median national rent rate has climbed 20 percent faster than inflation from 1990 to 2016.

An era of change is upon us, and the next generation of investors may have different priorities that will require a new approach.

Today, there is a trend toward what some call “responsible investing,” generally referring to consideration of environmental, social and corporate governance factors as part of investment decision-making.

How does the corporation respond to climate change or to water management? How do they treat their workers? A couple decades ago, these issues were unlikely to be part of the investment analysis.

But knowledge is power, and with knowledge, future investors should be able to grow their assets for current and future needs with the same confidence and success as their predecessors.

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