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MARKET MATTERS: Goals-based investing

By Joseph Matthews
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Photo: Contributed Photo Joseph Matthews

It has been written in many places, in varying forms, that the difference between a dream and an achievable goal is having a workable plan and sticking to it.

That essentially is the basis of successful goals-based investing; although it should be noted that having a plan isn't quite enough. That plan has to be versatile and capable of adjustment, as conditions related to it change.

Proper planning helps with the ability to track progress against preset goals, and the resultant perspective on where you stand at a given time in relation to where you wanted to be. A plan, and the ability to track it, allows the investor to maintain the ability to adapt as necessary.

But before you start out on developing your plan, it is important to determine just what it is you want out of your investments. Ideally, you will develop goals for the near future, mid-term of your career, and retirement. These goals could include further educational development for yourself, purchase of a home, upgraded transportation, marriage, children, their education and a host of other possibilities.

If you start working on your investment portfolio relatively quickly after completing your formal education, you probably are looking at housing, transportation, clothing and entertainment as primary cost centers. So, it would be natural to investigate areas where you have some familiarity for your early investments.

But as time progresses you may marry and raise a family, which likely will require a major realignment of your portfolio. You may want to save for future educational needs, perhaps create a 529 educational account, one for each of your children. As you progress in your career there may be unexpected illnesses, divorces, or a need to care for aging parents. It is prudent to keep 3-6 months of expenses aside to avoid touching your portfolio at an inopportune time.

All of these possibilities should be considered and planned for, just in case they do arise. In the meantime, vacations, second homes and additional automobiles are just some of the areas that will require increased expenditures, some of which, by now, could be funded in part by a productive portfolio. It should be noted that investing for retirement should begin as soon as possible, even though it may seem a long way off at the outset of our careers. The sooner we invest in our retirements, the better prepared we can be when that day comes.

And it is important to keep in mind that the market will fluctuate as the years go by, at times in a significant downward direction, and when it does, contingency plans should have already been in place.

But what happens if you don’t have a well-thought-out life plan, and for the moment are just winging it? Should you just spend what you need and put the rest into a savings account? Not if you want to have a viable financial cushion when things arise that will require an influx of cash. With savings accounts paying significantly lower interest rates than average market returns, (essentially 1 percent to 6-7 percent) you will be far better prepared for an emergency or unplanned life change, with a solid portfolio to draw on.

The great thing about an investment portfolio, particularly one that has been well-thought-out and implemented, is that with a regular payroll deduction and periodic performance reviews, investors may be surprised to see how quickly their assets can grow. By paying into your portfolio the same as you would any other monthly expenditure, your investments could even grow to a point where they are generating income on their own.

Thus, even without having a clear set of goals at the outset, simply knowing that life has many challenges and events over the years that can be planned for, gives investors the ability to plan for the future, whatever it may bring.

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