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Investment Resource Guide

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Investing with Confidence? There's no sure-fire investment strategy, but there are ways to hedge your bet. Regardless of our varying tax brackets, we all share the same dream: ensuring our money doesn't run out before our lives end. How we attempt to make that happen is where our paths diverge. Most people rely on putting their money to work for them, choosing an investment strategy that meets their short- and long-term needs, as well as their tolerance for risk.

According to investorwords.com, the definition of investment "in finance, is the purchase of a financial product or other item of value, with an expectation of favorable future returns. In general terms, investment means the use of money in the hope of making more money." That concept isn't complex, but as everyone knows, "expectation" and "hope" are the key words; if making investments were foolproof, we'd all be summering at Cannes and jetting home to our mansions on private planes.

Before going any further, here's a caveat you'll often see when perusing material from investment professionals: "The information provided is not intended as investment advice. No investment strategy can guarantee a profit or protect against a loss." Please keep that in mind.

Risk Versus Reward

All investment strategies must be based on investors' goals as well as their tolerance for risk. The "safest" investments—reserves such as savings accounts, money market accounts and Certificates of Deposit (CDs)—also offer the lowest potential returns. On an ascending scale, from least risk/least returns to greater



risk/greater returns, other investment vehicles include income investments such as bonds and income-producing real estate; growth investments such as common stocks, stock mutual funds, and variable annuities; and speculative investments such as options, commodities and precious metals.

- **Reserves.** Short of stashing cash under your mattress or in a piggy bank, keeping it in low-interest products such as savings accounts, money market accounts and CDs is the most secure way to go. Your only risk with these investments is that your return will not beat the inflation rate, so you won't gain any additional spending power.
- **Income.** Investing in the bond market, through which you're lending money to the government, states, cities and/or corporations, is a pretty conservative way to make your money work for you. Bond investors receive an income stream (repayment at a set interest rate) for the life of the bond, and their principal is returned after the bond term expires.
- **Growth.** Investors who choose to play the stock market, either on their own or as part of a stock mutual fund, are buying ownership in the companies in which they invest and hoping to receive dividends if the stocks perform well. Those who favor actively managed funds prefer having professionals make investing decisions based on research and their expertise; those who favor passively managed funds prefer to base their investing choices on the S&P 500 Index.
- **Speculative.** Very few people have the knowledge required to invest in precious metals like gold and silver or commodities like soybeans, corn, and carbon credits. Investors with a huge tolerance for risk and a significant portfolio may choose to invest a small part of it in these risky ventures.

Dabbling in Real Estate

Real estate investing, which typically falls within the growth heading, is another way investors try to bolster their assets. According to Chuck Heightland of Trident Properties Group, which provides brokerage services for residential and commercial properties throughout Southern California, the commercial real estate market in San Diego is very strong right now, with record sales exceeding the national average.

“The retail and industrial sectors are doing very well because of the combination of limited supply and high demand,” Heightland says. “Hotels and multifamily are also strong performers, the latter because developers are rethinking condo conversions based on the residential market slowdown.” The fact that real estate values are typically down when the stock market is up makes this a great time for investors to take some of the returns they've accumulated and buy real estate. Heightland noted that many Realtors are buying up properties now “like crazy.”

Real estate investments differ from other types of investments in a number of ways, including (1) the necessity to have cash to buy in—typically 20% down for residential properties and 30 to 40% down for commercial, and (2) the fact that investors may leverage their properties, reaping benefits such as equity gains and the ability to depreciate on a fractional investment. Heightland expects the commercial real estate market in San Diego to continue to be strong for investors for the foreseeable future, and he believes residential property values will start going up next year.

Most financial professionals believe that to accurately predict investment trends, a crystal ball is necessary. The fact is, taking advantage of “hot” investments often takes a bit of guesswork, as by the time investment trends are reported in publications like Money magazine, it’s typically too late to realize maximum returns by jumping on the bandwagon.

It’s also usually true that investors who are focused on the long term, rather than reaping short-term gains, are better off not trying to respond to every market hiccup or alleged “next best thing.” It’s been proven time and time again that the benefits of systematic investing—deciding on your appropriate asset allocation and then sticking to it—far outweigh the “excitement” of constant reallocation.

There is one investing trend that affords investors the opportunity to be cutting edge without needing to continually reevaluate their portfolios: sustainable investing. Perhaps you’ve heard it referred to as green investing, since companies’ environmental soundness is one of the criteria used to determine whether they meet the “sustainable” guidelines.

Jan Schalkwijk, principal at JPS Global Investments, works with clients who are interested in ensuring that their money is invested in companies that are actively working to reduce their environmental footprints, are socially responsible and free of corporate governance issues. He’s seeing growing interest from investors in exploring sustainable investing, in the wake of all the corporate malfeasance scandals and the increased focus on the negative effects of global warming.

“Our biggest challenge is communicating the message that every investor can participate in sustainable investing,” Schalkwijk says. “We’re not talking about making niche investments. Average investors can retrofit their portfolios to be sustainable.”

As you might imagine, sustainable investing is quite research intensive. While it would seem that some values are qualitative, agencies such as KLD exist to rate companies’ ESG (environmental, social and governance) quotients based on industry standards; the largest component of the rating is the green factor.

“It’s not always a black-and-white situation, so it’s important to keep an open mind and make sure companies aren’t merely paying lip service to the environment,” Schalkwijk says. “In addition, you can’t overlook companies’ abilities to provide a good return on investment, but I’m convinced that doing good and doing well go hand in hand.”

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