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7 Ways To Protect Your Investments Now

1. Don't Try and Beat the Market

One lesson learned from the stock market meltdown of 2008, was that many mutual funds lost much of their value. Even fund managers who previously had a great 10 year track record lost big. If you were invested in an aggressive mutual fund during this period, odds are that you suffered a significant depletion of your fund value. For many investors, investing in index mutual funds or exchange traded funds seems boring. Many will end up with much less in retirement than they should have because they chased return instead of taking the steady results of the indexes. Mutual fund companies tend to increase advertising dramatically after they have had a very hot streak. Unfortunately, this tends to attract investors at the top and they can only go down from there.

Gene Fama, well known economist and one of the key players in the development of modern portfolios theory stated the following, "The high cost of active management show up intact as lower returns to investors. Simulations produce no evidence that any managers have enough skill to cover the cost they impose on investors."

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2. Asset Allocation

This means how you divide your investments up between stocks, bonds, cash, and real estate. The more you have in stocks, the higher your projected return will be, but also the higher your risk for portfolio loss. The theory behind asset allocation is that by not having all your eggs in one basket, then the less risk you will have. Asset Allocation does work to minimize portfolio loss. Asset allocation, however, cannot eliminate the change of some loss. If the stock market does another nose dive, asset allocation will reduce the amount of your loss. A conservative asset allocation will generally have 20% to 30% stocks in it. The key point to remember is asset allocation is great for investment periods that are longer than 5 years, but for shorter periods you might want safer investments that have no downside risk.

3. Have "Safe Buckets" of Money

In today's turbulent economic times, you need some assets or income streams that don't fluctuate with the market. This could be a stream of income from a pension, immediate annuity, or social security (yes, I still consider it safe as long as the government can raise taxes to support it). The more safe income streams you have the less safe assets you will need, but everyone needs an emergency fund. The emergency fund is funded by the safe, liquid investments such as a bank checking account. Beyond this, many investors will need additional "safe" investments that are slightly less liquid. These might be in CD's, fixed annuities, or government bonds.

4. Minimize Expenses

As we are in an expected extended period of uncertain market returns, it is more important than ever to keep an eye on all the various investment expenses. High fees can decimate what would otherwise be an acceptable return. Over a 20 or 30 year investment period, exorbitant fees will drastically reduce your return. Be sure and ask about all fees, commission, and loads with any investment.

5. Be Aware of Taxes

Before buying or selling an investment, be aware of the tax impact. First, you need to know whether you are in a tax deferred, tax free, or a fully taxable account. Never buy an investment simply for the tax benefits if it doesn't make sense otherwise. On the other hand, never sell an investment without analyzing the amount of taxes you might own on the trade.

6. Inflation

Previously in this article, I have told you the importance of having "safe buckets"of money. While this is true, it is also important to have investments that will outpace inflation over the long run. Especially with the current incredible government spending, inflation is eventually going to come roaring back. The projected lifespan of Americans is now longer than ever, so it is important to have some stocks in your portfolio to protect your standard of living.

7. Take the Least Risk Possible to Reach Your Financial Goal

This doesn't mean you invest all your money in low-yielding ultra-safe accounts. It means you first define your goals for retirement, such as your projected retirement age and your desired monthly income. Then you need to decide how much money you will need to save to reach your desired financial goals (you will want to use some form of Monte Carlo software for this). The amount you end up with is the result of several variables such as your monthly savings amount and your projected rate of return on your investments. All things being equal, you will want to have the most conservative as possible investments in order to meet your retirement goals. But, if you have a high lifestyle that you want to live in retirement, you might have to invest more aggressively. The more aggressive you invest the higher your projected return will be. Your risk of failure is also greater in this scenario. So when you review your financial plan and your projected accumulation does not equal enough to support your desired retirement lifestyle, then you have three more options. You could retire at an older age, save more now, or invest more aggressively. The last option allows you to maintain your goals with the least appearance of pain. However, remember that any time you do invest more aggressive you have also increased the risk of not reaching your goals.

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