CAPTRUST

Six Keys to More Successful Investing

1. Understand the Benefits of Compounding

Compounding interest is a powerful financial concept that allows investments to grow exponentially over time. Like a snowball rolling downhill, the longer money is invested, the more it grows, with interest building on to not only the principal amount invested but also the previous interest earned.

Investors who start early, even if theyâ??re only investing small amounts, tend to accumulate more wealth than investors who contribute a large amount of money later in life. For example, a modest investment of $10,000 at an annual rate of return of 8 percent would grow to $100,627 in 30 years assuming no additional contributions or withdrawals. In contrast, an investor who contributed $25,000 in year 15 would only have $82,676 in year 30.

In addition to assuming no additional contributions or withdrawals, this simple example also assumes that no taxes are paid. Tax-deferred individual retirement accounts (IRAs) and qualified retirement plans, including 401(k)s, function similarly to our example. Assets invested in these types of accounts are not subject to income tax until they are withdrawn. The principle of compounding is especially impactful in saving for retirement; itâ??s why financial experts recommend funding those tax-deferred accounts early in your career, even if you can only afford a small contribution.

Regardless of how much you save, itâ??s important to remember that starting early to take advantage of compounding can lead to substantial growth over timeâ??and create disciplined savings habits along the way.

2. Remain Disciplined During Times of Market Volatility

Riding out market volatility is one of the most effective financial strategies for long-term investors. Financial markets naturally experience ups and downs due to economic cycles, geopolitical events, and investor sentiment. While it can be tempting to react to short-term fluctuations by selling your

investments, doing so often locks in losses and causes you to miss out on potential rebounds. Historically, markets have shown resilience and a tendency to recover over time, rewarding those who stay invested through turbulent periods.

While leaving assets in the market through times of volatility is part of a disciplined investment approach in the long run, there are many reasons investors may need or want to withdraw assets during market volatility. A financial advisor can help guide you. Considering the time horizon for your various buckets of investments is essential. For assets you may need in the short term, you may consider investments that are designed to protect your principal, even if they may have a lower return, while assets that you wonâ??t need for many years can remain invested in a long-term, growth-focused investment strategy.

Itâ??s also important to remember that different asset classes perform differently in various markets. In addition to investing based on your time horizon, investing across asset classes may reduce overall volatility in your portfolio and help you stay disciplined by keeping those longer-term assets in the market during times of turbulencl.

By maintaining a long-term perspective and trusting in the marketâ??s historical resilience, investors can build wealth more steadily and confidently.

3. The Power of Diversification

Asset allocation involves distributing your funds across different types of investments, commonly known as asset classes. The four most common asset classes are stocks, bonds, cash, and alternative investments (assets that donâ??t fall into any of the previous three categories). A basic asset allocation strategy would likely include at least stocks, bonds, and cash.

Diversification across asset classes is a fundamental principle of sound investing that helps reduce risk by spreading investments across a variety of asset classes, industries, and geographic regions that perform differently. By not putting all your money into a single investment or sector, you minimize the impact of any particular assetâ??s poor performance on your overall portfolio. For example, if technology stocks decline, gains in healthcare or energy sectors might offset those losses. This balance helps protect your portfolio from volatility and unexpected market events.

Proper asset allocation that meets your risk tolerance and time horizon can provide for more stable and consistent returns over time. Different asset classes perform differently under various economic conditions. While equities may thrive during periods of growth, bonds might perform better during downturns. A diversified portfolio can capture growth opportunities while cushioning against losses, making it easier to stay invested and avoid emotional decision-making during market swings.

Ultimately, diversification is not about eliminating risk entirely but about managing it wisely. Itâ??s a mitigation. Itâ??s a strategy that supports long-term financial goals by building resilience into your investment approach.

4. Learn How Time Horizon Impacts Investment Choices

Considering your time horizon is crucial when making investment decisions, because it directly influences the types of assets you should choose and the level of risk you can afford to take.

For example, saving for retirement in 30 years is considered a long-term time horizon and, therefore, allows for greater tolerance of short-term market fluctuations. This means you can invest in higher-risk, higher-reward assets like stocks, which historically offer better returns over time. Conversely, a shorter time horizon, such as saving for a home in the next few years, calls for more conservative investments to preserve capital.

Your time horizon also affects how you respond to market volatility. Investors with long-term goals can better weather the downturns, riding them out and knowing that markets tend to recover and grow over time. This patience can lead to significant gains, especially when combined with strategies like dollar-cost averaging (which is explained below) and reinvestment of dividends. On the other hand, those with short-term goals may need to prioritize liquidity and stability by choosing investments that are less likely to fluctuate dramatically in value but may have lower returns.

Finally, aligning your investment strategy with your time horizon helps you stay focused and avoid emotional decision-making. It provides a framework for setting realistic expectations and measuring progress toward your goals. Whether youâ??re investing for retirement, education, or a major purchase, understanding your time horizon ensures that your portfolio is appropriately structured to meet your needs when you need the money.

5. Consider Dollar-Cost Averaging

Dollar-cost averaging (DCA) is a strategy that involves investing a fixed amount of money at regular intervals, regardless of market conditions. One of its primary benefits is that it helps reduce the impact of market volatility. By purchasing more shares when prices are low and fewer shares when prices are high, investors can lower their average cost per share over time. This approach can smooth out the highs and lows of the market and can lead to better long-term investment outcomes, especially in uncertain or fluctuating market and economic environments.

Another advantage of DCA is that it encourages consistent investing habits. Rather than trying to time the market, DCA promotes discipline and removes emotion from the investment process. Investors are less likely to make impulsive decisions based on fear or greed, which can lead to costly mistakes. This steady approach is particularly useful for long-term goals like retirement, where regular contributions can compound significantly over time.

DCA also makes investing more accessible. It allows individuals to start investing with smaller amounts of money, making it easier to build a portfolio gradually. This is especially beneficial for new investors or those with limited capital, as it lowers the barrier to entry and fosters financial growth over time. By spreading out investments, DCA helps manage risk and provides a structured path toward

wealth accumulation.

6. Review and Rebalance

Regular investment portfolio review and rebalancing are essential practices for maintaining alignment with your financial goals and risk tolerance. Over time, market fluctuations can cause your asset allocation to drift from its original targets. For example, if stocks perform well, they may begin to dominate your portfolio, increasing your exposure to risk beyond what you intended. By reviewing your portfolio periodically, you can more quickly identify these shifts and make informed decisions to bring your investments back in line with your strategy.

Rebalancing also helps you take advantage of market movements in a disciplined way. It involves selling assets that have grown disproportionately and buying those that have lagged, effectively encouraging a buy-low, sell-high approach. This can enhance long-term returns and reduce the likelihood of overexposure to any single asset class. Without rebalancing, your portfolio may become too concentrated, making it more vulnerable to downturns in specific sectors or markets.

Resource by the CAPTRUST wealth planning team

In addition to managing risk and optimizing returns, regular reviews also ensure your portfolio continues to reflect your life circumstances, financial goals, and market conditions. Whether youâ??re approaching retirement, experiencing a change in income, or adjusting your investment timeline, periodic check-ins allow you to adapt your strategy accordingly. Staying proactive with reviews and rebalancing helps keep your investment plan on track and increases the likelihood of achieving your financial objectives.*This material is not individual investment advice. If you have questions or concerns regarding your own individual needs, please contact a CAPTRUST representative for further assistance. This material does not constitute legal, accounting, or tax advice. This material has been prepared solely for informational purposes. Investment advisory services offered by CapFinancial Partners, LLC (â??CAPTRUSTâ?• or â??CAPTRUST Financial Advisorsâ?•), an investment advisor registered under The Investment Advisors Act of 1940.*

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