

# The Long-Term Investing Guide

*Prepared by 5 Stone Financial Group*

## Why Long-Term Investing Matters

Investing is the engine that helps fund your retirement, support your family, and grow wealth over time. But investing isn't just about returns or beating an index. It's about building a portfolio that can support your life, reduce financial risk, and adapt to your changing needs.

Long-term, disciplined investing is the most reliable way to achieve meaningful financial goals while avoiding the emotional decisions that often derail progress. This guide will help you understand the principles, strategies, and mindset that support successful long-term investing.

*Remember: Your investments are only one piece of your financial plan. This guide focuses on investing, but your portfolio should always connect to your broader strategy, including taxes, income planning, and risk management.*

## 1. What Are You Investing For?

Before discussing strategy or asset allocation, the most important question is: what are you investing for? The answer determines everything else.

For most people approaching or in retirement, investments serve a specific purpose:

- **Income durability:** Supporting your lifestyle for 20 to 30 years or more
- **Risk reduction:** Protecting against running out of money
- **Flexibility:** Adapting to changing needs, health costs, or family circumstances
- **Legacy:** Leaving something behind for family or causes you care about

Successful investing isn't about maximizing returns. It's about building a portfolio that can deliver what you need when you need it, while managing the risks that could derail your plan.

## 2. Principles of Long-Term Investing

Long-term investing is a disciplined, goal-focused approach. It means owning a well-diversified portfolio of equities and fixed income investments and maintaining that allocation through market ups and downs.

### **Core principles:**

- Invest based on your long-term goals, not short-term market movements
- Maintain your allocation during periods of volatility
- Avoid the temptation to time the market or react emotionally
- Rebalance strategically, not reactively
- Recognize that markets cannot be reliably predicted or timed

## **3. How Markets Work (And Why They Feel Irrational)**

Markets are designed to process information rapidly. Prices adjust as investors react to new data, sentiment, and expectations. But this doesn't mean markets always feel logical in the short term.

### **What you need to know:**

- Historically, markets have risen over time, but not in a straight line
- Volatility is normal, not a sign that your plan is broken
- Headlines are often dramatic, but they rarely warrant portfolio changes
- Short-term market behavior is often driven by emotion, not fundamentals
- Patient, long-term ownership has historically been the most reliable path to positive returns

The challenge isn't understanding this intellectually. It's staying disciplined when markets feel uncertain and headlines are alarming.

## **4. Staying Focused When Headlines Are Loud**

It's easy to get distracted or even derailed by economic news, market updates, and financial media. The key to long-term success is tuning out the noise and focusing on what you can control.

### **How to protect your plan from the headline cycle:**

- Understand that markets often price in bad news before it hits the headlines
- Recognize that breaking news rarely requires portfolio action
- Avoid emotional decisions driven by fear, uncertainty, or urgency
- Remember that long-term investing sometimes means doing nothing, especially when it feels hard

- Keep your focus on your goals, not short-term predictions

Financial media is designed to capture attention, not guide your investment decisions. Your job is to stay grounded, focused, and confident in your long-term plan.

## 5. Building Blocks: Diversification, Allocation, and Rebalancing

Diversification, asset allocation, and disciplined rebalancing are core components of successful long-term investing. Together, they help reduce unnecessary risk, manage volatility, and keep your portfolio aligned with your goals.

### Diversification

Diversification means not putting all your eggs in one basket. It involves spreading your investments across different asset classes, sectors, and geographies to reduce the impact of poor performance in any single area.

#### Benefits of diversification:

- Helps cushion against market volatility
- Reduces exposure to individual asset or sector risk
- Increases the likelihood of consistent performance over time

### Asset Allocation

Asset allocation is how your portfolio is divided among stocks, bonds, and other asset types. It's one of the biggest factors in long-term returns and the level of risk you take.

#### A good asset allocation is based on:

- Your time horizon (how long your money needs to last)
- Your income needs and stage of retirement
- Your ability to stay disciplined during market uncertainty

### Rebalancing

Rebalancing is the practice of periodically realigning your portfolio back to its intended target allocation. Over time, market performance and withdrawals can push your allocation out of balance, increasing short-term risk or reducing long-term growth potential.

#### Why rebalancing matters:

- Keeps your portfolio aligned with your goals
- Encourages disciplined investing behavior
- Can create buy-low, sell-high opportunities without emotion

## 6. Managing Risk in Retirement: The Stable Reserve Strategy

One of the most effective ways to manage risk in retirement is to set aside a portion of your portfolio in stable, accessible assets to fund your income needs, especially during market downturns.

A stable reserve typically holds 5 to 6 years' worth of expected withdrawals in conservative investments, such as short-term bonds, CDs, or cash equivalents. The rest of the portfolio remains invested for long-term growth.

### Example:

Consider a couple who retired in early 2008, just before the financial crisis. Despite significant market declines, they had several years of income needs already set aside in stable assets. This allowed them to avoid selling long-term investments at a loss. By 2013, their equity portfolio had not only recovered but continued to grow, supporting their income plan without interruption.

This approach provides both peace of mind and helps preserve long-term growth potential by giving your equity investments time to recover before they're needed for income.

## 7. Integration: Investments as Part of Your Plan

Your portfolio is only one piece of your financial plan. The most successful long-term investors coordinate their investments with their broader strategy, including taxes, income distribution, estate planning, and risk management.

Here's how investments connect to other planning areas:

### Taxes and Withdrawal Sequencing

The order in which you withdraw from different accounts (traditional IRA, Roth IRA, brokerage) affects your tax bracket, how much of your Social Security is taxable, and your Medicare premiums. Strategic withdrawal sequencing can save tens of thousands of dollars over retirement.

Coordinating withdrawals with Roth conversions during lower-income years can reduce Required Minimum Distributions later and give you more tax-free flexibility.

### Asset Location

Asset location refers to which investments you hold in which types of accounts. This is different from asset allocation (which is what you own) and can have a meaningful impact on after-tax returns.

### General principles:

- **Tax-inefficient assets** (bonds, REITs, actively managed funds with high turnover) are often better held in tax-deferred accounts like traditional IRAs.
- **Tax-efficient assets** (index funds, ETFs, individual stocks held long-term) may be better in taxable brokerage accounts where capital gains are taxed at lower rates.
- **High-growth assets** may be best in Roth accounts, where all future growth can be withdrawn tax-free.

Asset location isn't a one-time decision. It should be reviewed as your account balances, tax situation, and income needs change over time.

## Income Planning and Portfolio Withdrawals

Your Social Security claiming age, pension elections, and other income sources all affect how much you need to withdraw from your portfolio. Coordinating these decisions can reduce the pressure on your investments and lower your overall risk.

For example, if delaying Social Security to age 70 significantly increases your guaranteed income floor, you may be able to hold a more growth-oriented portfolio because you're relying less on it for baseline expenses.

## Keeping Costs Reasonable

Investment costs matter, particularly expense ratios on funds and unnecessary trading costs. Over a 20 to 30 year retirement, keeping these expenses low can make a meaningful difference in your net returns.

**Example:** A portfolio with 0.25% in total annual fund expenses will compound very differently over 25 years compared to one with 1.25% in expenses. On a \$1 million portfolio, that 1% difference could amount to several hundred thousand dollars over time.

At the same time, professional guidance that helps you avoid costly mistakes, optimize your tax strategy, coordinate your income sources, and stay disciplined during market volatility often adds far more value than its cost. The key is ensuring that what you pay for delivers meaningful value to your financial life.

## 8. Common Pitfalls to Avoid

Even experienced investors can fall into traps that derail long-term success. Here are the most common pitfalls and how to avoid them.

## **Reacting Emotionally to Market Downturns**

Selling during a market decline locks in losses and often causes you to miss the recovery. Markets have historically recovered from every downturn, but only those who stayed invested benefited.

## **Trying to Time the Market**

Missing just a few of the best days in the market can dramatically impact your long-term returns. The problem is that those best days often follow the worst days, making it nearly impossible to time correctly.

## **Chasing the Hot Investment or Trend**

Yesterday's winners aren't guaranteed to repeat, and hype often ends in disappointment. Stick to your allocation rather than chasing recent performance.

## **Letting Headlines Dictate Your Moves**

Headlines are written to provoke emotion, not to guide your investment plan. If a news story is making you want to act, pause and revisit your long-term goals.

## **Failing to Review Your Strategy Over Time**

Even long-term plans need periodic course corrections. Your income needs, tax situation, and risk tolerance may change. Regular reviews help keep your portfolio aligned with your evolving life.

# Your Investment Planning Worksheet

Use this worksheet to reflect on how your investments support your long-term goals. Your investment approach should be based on your time horizon, income needs, and the role your investments play in your overall financial plan, not on emotion or market headlines.

## Part 1: Goals and Time Horizon

### 1. What is the primary purpose of your investments?

(e.g., retirement income, future legacy, specific expenses)

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### 2. When do you expect to begin withdrawing from your investments?

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### 3. How long do your investments need to last to support your plan?

Less than 5 years    5-10 years    10-20 years    20+ years

### 4. What other sources of income support your plan?

(e.g., Social Security, pension, rental income)

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## Part 2: Risk and Behavior

### 5. If markets declined 20% tomorrow, what would concern you most?

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### 6. How confident do you feel in your ability to stay invested during a prolonged market downturn?

Very confident    Somewhat confident    Not confident    Not sure

### 7. What would help you feel more confident staying invested during uncertainty?

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## Part 3: Integration and Planning

### 8. Have you coordinated your investment strategy with your tax situation?

Yes    No    Not sure

### 9. Do you have a plan for which accounts you'll withdraw from first in retirement?

Yes    No    Not sure

## **10. What are your most important financial goals over the next 5 to 10 years?**

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## **11. What would make you feel more confident in your investment strategy?**

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### **Disclosure**

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