investing & your financial plan

Accumulating wealth is the primary goal of a financial plan. Developing investment skills along the way brings added value to the equation, often helping grow your net worth even faster.

According to Fidelity's 2021 Women and Investing Study, 67% of women are now investing outside retirement. This is a 23% increase over 2018; however, only 33% of women consider themselves investors. Fifty percent of women have been more interested in investing since the pandemic, despite the current recession.

Most women lack investing confidence because they don't have adequate time to develop skills or forfeit their careers to care for children or parents. For the record, as women, we also face the glaring disadvantage of earning $0.82 for every dollar men earn. On a positive note, investing confidence among women typically increases with age.

Whether you're currently investing or not, here are six reasons why it can contribute to the overall success rate of your financial plan.

1. Healthcare – unforeseen health issues
2. Education – college expenses and loans
3. Major Purchases – buying your first, second, or vacation home
4. Retirement – your most significant source of income once you stop working
5. Preserving Purchasing Power – your ability to live comfortably once retired
6. Unexpected Major Expenses – anything can happen

Growing your wealth is the key to maintaining positive purchasing power during retirement, which is why your investment strategies must outpace inflation. One possible way to do this is to invest heavily in stocks.

Investment Options

Despite their growth potential, most women shy away from stocks because they don't have the knowledge base and confidence to take risks in their portfolios. The longer your investment horizon or the younger you are, the more time you have to ride the ups and downs of the stock market.

As a side note, according to Goldman Sachs, 43% of women-managed mutual funds outperformed their benchmark in 2020, compared to just 41% of those managed by men.

Stocks

You have a higher potential for risk and returns when you invest in the stock market, which is the same as investing in companies. When you buy a company's stock, you buy a share of the company. Your share of the value increases as business grows for that publicly traded company. If the value declines, so does the value of the stock. If the business makes a significant profit and decides to give some of that money to its owners, you will receive a dividend.

Bonds

Bonds are an investment in debt and a way for companies and governments to raise money. Governments make small loans to large entities that pay back the money over time with interest. If you buy $1,000 in bonds from a major corporation and that company pays you 4% interest annually over 10 years, you'll receive what you paid, plus 4% interest.

Cash Securities – CDs, Money Market, U.S. Treasury Bills

Certificate of Deposit

A CD or Certificate of Deposit is a federally insured savings account in which you invest funds for a specific period in exchange for predetermined monthly interest payments. Taking the money out before it matures will cost you.

Money Market Mutual Funds

A type of mutual fund that invests in high-quality, short-term debt instruments, cash, and cash equivalents. These are low-risk and generate income but little capital appreciation. Money Market mutual funds are not FDIC insured.

Treasury Bills

Money Market mutual funds can contain a specific type of money market security or a combination of securities:

- Purchases limited to U.S. Treasury securities
- Purchases both U.S. government securities and investments in various government-sponsored enterprises or GSEs
- Purchases in a variety of money market instruments that offer the highest degree of security

Financial instruments comprising money market funds are highly liquid, which means they can be converted quickly to cash.

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Managing Your Risk

You can help manage your investment risk by getting into the habit of investing at a young age. If you didn't already do this, you've still got time. The average life expectancy for women is 81.2, compared to 76.3 for men. Keep in mind that outliving your husband increases your likelihood of needing long-term care, which is highly costly.

Investing success while managing risk involves four major strategies.

Asset Allocation

Deciding where to put your money in the stock market based on your goals, risk tolerance, and investment horizon. The three main asset classes are equities, fixed income, and cash and cash equivalents.

Diversification

Deciding how to divide your assets among the three main asset classes to manage your risk appropriately. This helps reduce the volatility of your portfolio over time.

Dollar-Cost Averaging

The practice of systematically investing equal amounts of money at regular intervals regardless of price.

Buy & Hold

A passive investment strategy of buying stocks and holding them for an extended period regardless of market fluctuations. This is the preferred investment strategy of Warren Buffet.

Next Steps

If you're new to investing, the minimum amount to start ranges among brokerage firms and financial planners; however, $1,000 is a practical jumping-off point. If you're already investing in a company-owned retirement plan, it may be time to evaluate your asset allocations and consider other strategies beyond retirement savings.

Take advantage of our virtual monthly and semi-annual in-person workshops to keep growing your skills. Join our Women, Wealth & Wine social group to benefit from conversations with other financially focused women.

The more you explore, learn, and grow your confidence, the better off you'll be in the long run. Investing in your financial plan is an investment in you.

Sources: The Motley Fool, March 9, 2022 • Northwestern Mutual May 13, 2022 • Investopedia.com

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There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification and asset allocation do not protect against market risk.

Dollar cost averaging involves continuous investment in securities regardless of fluctuation in price levels of such securities. An investor should consider their ability to continue purchasing through fluctuating price levels. Such a plan does not assure a profit and does not protect against loss in declining markets.

Stock and mutual fund investing includes risks, including fluctuating prices and loss of principal.?

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.