

## A Beginner's Guide to Goal-Based Investing

Getting started with investing can feel like navigating a maze. With numerous strategies, opinions and asset classes to choose from, it's easy to get overwhelmed. Setting investing goals and refining them as you progress is crucial to making smart decisions and building a strong financial future.

### Why Investing Goals Matter at Every Stage

Setting clear investing goals is the foundation of any successful financial plan. Whether you are in your 20s, 30s or 50s, having well-defined objectives helps guide your decisions and ensures that your investing strategy is tailored to your needs and priorities. Without goals, it's easy to get lost in the sea of options and make impulsive or misguided decisions.

For younger investors, goals like saving for retirement might be centered around growth strategies. You have time on your side, which allows you to take more risks and recover from any potential losses.

Young investors may also have other goals such as building an emergency fund or saving for a large purchase, like a house. These objectives require a different approach with a greater focus on preserving capital and having easy access to your money. When your computer suddenly needs replacing or your car breaks, you want to ensure the money is there to cover the expense.

As you progress in your career, your financial goals evolve. You may now be saving for a child's education or investing for other major life events, such as buying a bigger home or starting a business. At this point, your approach might involve a balance between growth and stability, ensuring your savings grow while keeping a portion of your portfolio relatively secure for more immediate needs. One way to accomplish this is to divide up your goals by short, intermediate and long term.

For those further along in their careers or approaching major financial transitions, like retirement, the focus often shifts from wealth accumulation to generating portfolio income.

Regardless of the life stage you are in, investing goals help you prioritize what's important and allow you to align your strategy with both short- and long-term plans.

### Tailoring Your Strategy to Your Goals

Different goals require different investing strategies. If you're focused on long-term growth, you might lean

toward higher-risk, growth-oriented investments such as stocks. On the other hand, if you need funds in the short term, such as for a home purchase in the next few years, your strategy may be more conservative, focusing on stable, low-risk investments like certificates of deposit (CDs) or money market accounts.

For example, a young professional in their 20s or 30s might prioritize aggressive growth in their retirement account, allocating mostly to stocks and higher-risk investments. With many years before retirement, inflation is a big risk. Stocks have historically done the best job of realizing real (inflation-adjusted) returns. Plus, young professionals have both the time to recover from market downturns and the salary from working to cover their daily living expenses.

In contrast, a couple in their 40s or 50s saving for their child's college tuition would likely take a more balanced to conservative approach. Their time horizon is shorter, and they need to ensure the money will be available when tuition payments come due. Depending on the age of the child, a portfolio that holds a mix of stocks and bonds or one with a greater allocation to bonds and money market funds may be appropriate. The difference is how close the family is to needing to take withdrawals to cover tuition payments.

No matter what your specific goal is, your investing strategy should reflect both the timeline and your risk tolerance associated with that goal. A diversified portfolio, designed to manage risk while achieving desired returns, will help you stay on track as your financial situation evolves.

### Adjusting Goals as Life Changes

Your investing goals are not set in stone; they will evolve over time as your situation and market conditions change. Life events such as marriage, starting a family, career changes or unexpected financial challenges may require you to adjust your investing strategy. You may also find yourself having to adjust the timing or priority of certain goals. Regularly reviewing and updating your goals ensures that your investments remain aligned with your current priorities.

For example, someone in their early career saving for a home down payment may have a change in their employment status that postpones the timing of when they can buy a house. Alternatively, as they build financial

stability and enter their 30s, they may be able to place a bigger priority on investing for retirement or their children's education.

An older adult who started out with a high-growth investing strategy may wish to reduce the level of portfolio volatility they are willing to withstand as they approach retirement. This could occur if they desire to have their portfolio generate more income or they wish to incorporate less volatile assets into their portfolio.

Again, it's a good idea to revisit your financial goals periodically. Checking in on your portfolio annually or after a significant life event can help ensure your strategy still supports your needs. If your goals or priorities shift, your portfolio should adapt to continue working for you.

### Balancing Risk and Time Horizon

An essential part of setting investing goals is determining your risk tolerance—how much uncertainty or fluctuation you are comfortable with in your investments. Some people can handle the ups and downs of the stock market, while others prefer a more stable, conservative approach.

Time is a key consideration here.

Younger investors typically have more time to recover from bear markets. Stocks are generally suggested for a 25-year-old investor saving for retirement because they historically realized the highest return on capital. Any shorter-term drops in the stock market will be more than compensated by long-term growth.

However, a 45-year-old with a child nearing college age might incorporate some safer investments, such as bonds and CDs. This would be done to ensure the money will be there when needed. Short time horizons leave little room to recover from financial market downturns.

Understanding your time horizon is key to managing risk and return. The longer your time horizon, the more risk you can take on because you won't need to take withdrawals—and therefore sell stocks—when a bear market occurs. As your goals approach, especially for short-term needs, you may need to gradually shift towards safer investments that protect your capital from an ill-timed drop.

### Flexibility and Diversification

Life can be unpredictable, and financial markets can be volatile. Flexibility is critical in investing. Building a diversified portfolio—spreading your investments across different asset classes like stocks, bonds, real estate and cash—can help reduce risk and improve the chances of achieving your goals.

Diversification helps to mitigate losses in one area with gains in another. For example, if the stock market



takes a downturn, your bond investments may rise in value. While diversification doesn't eliminate risk, it reduces the impact of downside volatility in one asset class. Stocks, bonds and other asset classes don't experience the same magnitude of change in their value. This helps to protect your portfolio from the financial market's swings.

Additionally, allocating some of your savings to less volatile assets such as cash equivalents (money market funds, savings accounts, etc.) ensures that you can access funds quickly if unexpected expenses arise. Having a portion of your portfolio in such assets can give you peace of mind knowing that your savings are accessible when needed without disrupting the growth of your long-term investments.

Even if your short-term goals require a conservative approach, it's important not to lose sight of long-term growth. Inflation can erode the purchasing power of your money over time, so keeping some exposure to growth investments is important to ensure your savings continue to grow.

For instance, if your primary goal is to retire in 20 or 30 years, you will need to both maintain your ability to buy goods and services as well as grow the absolute value of your savings. This means holding growth-oriented assets like stocks. Bonds and other fixed-income investments may provide stability, but they often offer lower returns. They will not provide the returns you need to achieve long-term goals.

As you age, you can incorporate greater diversification into your portfolio to smooth out the volatility.

### Regularly Reviewing and Adjusting Your Goals

Investing is not a one-time event. As your life and financial situation change, so should your investing strategy. Regularly reviewing and adjusting your goals and your portfolio helps ensure that your investments stay aligned with your current priorities and financial objectives. ■

—Omar Beirat, AAIL research intern