Avoiding Common Investment Mistakes

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Serving the Peninsula, Southside and Northeastern North Carolina.

Offices located in Elizabeth City, Virginia Beach and Portsmouth.

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As elder law attorneys we are frequently asked to assist our clients with estate, long-term care and investment planning. Unfortunately, we often find that our clients have made significant mistakes in their investment planning. These mistakes jeopardize our clients' ability to provide for their support and to leave inheritances to their children. In some cases, the client may run out of money needed for the client's support because of the investment mistakes.

For example, we recently meet with a couple in their 80's to discuss their long-term care planning. The wife was in the early stages of Parkinson's disease. Their combined annual income was about $30,000. They owned their home and about $400,000 of investments. On the advice of their "commission-based" investment advisor, about 80% of their investments were in illiquid real estate investment trusts (REITs). This elderly couple was taking too much risk by concentrating their investments in one asset class, and they may suffer a significant loss when they sell the REITs to pay for the wife's care. Other elderly clients have invested way too large a percentage of their investments in deferred variable annuities with significant withdrawal penalties.

To avoid investment errors, Oast & Hook recommends that our clients:

1. Put their investment and estate planning goals in writing. Although a professional advisor can assist the client with this responsibility, the client should not delegate this task to the professional. In making investment decisions, the client should not deviate from the client's stated goals and objectives, however, the client should annually review and revise the goals as necessary.

2. Obtain investment advice from "fee-based" advisors rather than from "commission-based" advisors. Commissions create conflicts of interest because a commission-based advisor is compensated for making money from the client rather than for the client. Oast & Hook thinks that commissions were the reason that the elderly couple discussed above was advised to invest 80% of their funds in REITs.

3. Do not rely on their emotions. It will lead them to sell at market lows and invest at market highs.

4. Save. Save. Save.

5. Do not speculate. When clients play the market or day-trade, they are gambling on their ability to beat the pros. They will lose.

6. Do not invest primarily for "tax reasons." Tax shelters are frequently poor investments.

7. Do not consider the client's home as an investment. Think of it as a place where the client's family and the client live.

8. Reduce investment risk and increase returns by allocating investments among different asset classes such as large cap stocks, small cap stocks, REITs, foreign stocks, and bonds.

9. Monitor investment performance on a quarterly basis and re-balance their investment allocation annually.

10. Increase investment returns by controlling investment expenses and taxes. To accomplish these objectives, Oast & Hook recommends that our clients consider using index mutual funds or exchange traded funds. For larger accounts, Oast & Hook recommends separate account managers.

Oast & Hook thinks that a competent fee-based investment advisor can assist our clients in accomplishing their estate, long-term care and investment goals. To assist our clients in establishing prudent investment policies, we have formed Oast & Hook Financial Services, L.L.C., a registered investment advisor. Oast & Hook Financial Services provides investment advice, but it does not manage money. For money management, Oast & Hook Financial Services refers our clients to experienced and competent money managers. Our job is to help the client develop the client's goals and objectives in a written investment policy statement, select appropriate money managers to implement the policy, monitor the performance of those managers, and to periodically review and update the investment policy statement.

About This Document

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