

INVESTMENT INSIGHTS: JULY PODCAST

WITH BRETT HAMMOND

July 16, 2010

Chief Investment Strategist Brett Hammond discusses “The Five Habits of Highly Successful Investors.”

Hello and welcome to TIAA-CREF Investment Insights, our ongoing discussion of market and economic events. I'm John Wilkens and we're joined by Brett Hammond, TIAA-CREF's Chief Investment Strategist.

Brett, we last talked about the Five Habits of Highly Successful Investors about a year ago. In light of what we've seen in the last year, I thought it might be a good idea to revisit these principles.

It's been quite a year. And it does help to remember where we've been. To put today's market turbulence in perspective, the Dow last dipped below 8200 in July of 2009. Since then we've seen the beginnings of economic recovery, an end to the “Great Recession” and even factoring in the correction of April and May, a recovery in the markets.

And as you've talked about with us, unemployment is still all too high and the negative headlines coming out of Europe are still persisting. But am I right in saying your five habits were designed to serve investors well through good times and bad?

Yes. We'll go into detail on each one, but the point is this. No matter what the markets are throwing at us day to day, no matter where the bad headlines come from or the opportunities for future growth look like, the five principles of highly effective investors are general principles that should help point people saving for retirement in the right direction.

So starting from the beginning, the five habits are: One, set goals; two, tax-defer as much as possible; three, be appropriately diversified; four, don't try to time the market and five, pay attention to expenses.

The first habit Brett - setting goals. For many people now, the goal might be getting a retirement portfolio back on track.

Right. Have a vision and work towards it. Establish your goals with as much detail as you can. And then translate those goals into appropriate time frames. Specifically, put a dollar value on what you think you can save each month. An important step which an independent advisor can help with.

One caveat I think we mentioned last year but is perhaps even more critical today - be realistic and flexible. Revisit these goals whenever there has been a major life change such as marriage, the birth of a child or sizable market events. Let's look at the second goal - tax-defer as much as possible.



FINANCIAL SERVICES
FOR THE GREATER GOOD®

Of course everyone's tax situation is a little different, and this isn't specific tax advice. The general approach is to contribute as much as you're able to your retirement accounts, and keep contributing regardless of where the markets are going day to day. And look at tax-deferred products such as tax-deferred annuities and Individual Retirement Accounts. If you pay less in taxes now you're therefore contributing more for your future with the money that would otherwise go to taxes. No matter how small these additional amounts are initially, over time they compound and can have a sizable impact.

And we should mention that vehicles that defer taxes generally have restrictions on when you can access the money you've invested.

Such as age. And there may also be income restrictions on contributions with some of these vehicles. Nevertheless, in many instances they can be advantageous. And again, talking to an advisor to measure the pros and cons for your individual circumstances can help.

Let's move on to the third habit - diversify your portfolio.

Something you and I discuss frequently, and for good reason. 90% of the difference in returns among different portfolios comes from effective asset allocation. This is according to a well known and often cited study by Brinson, Hood, and Beebower from 1995.

What this means in practice is that experienced investors don't rely on a few hot stocks or industry sectors. Instead they spread their holdings thoughtfully across a full range of asset classes such as stocks and bonds, stocks from international and US markets. Bonds with differing maturities, cash, as well as alternative investments such as direct real estate.

But in the midst of the recession though, we did see certain asset classes move perhaps more in lockstep than we might have expected?

Well that's true to a point. But I'd suggest that even though we did see relatively low levels of diversification for a time, the principle still stands. Being appropriately diversified can *still* help provide a measure of stability. Diversifying spreads risk across different asset classes and may reduce overall portfolio volatility by insulating you from the ups and downs of any one type of security, region or asset class.

And, I guess related to the diversification habit, consider guaranteed income as part of your retirement plan.

Yes. A product that provides guaranteed return and guaranteed income can help you create a basic income floor for the future. So it can reduce the risk of not having enough income or running out of that income.

And time also helps manage risk when market volatility and rates of return are averaged over years or even decades. And I guess this is closely related to the next habit - don't try to time the market.

Market timers have to be right twice to be successful — when they sell, and again when they buy. A very difficult proposition. Instead, long-term investors should build their wealth by investing on a regular basis. Either through your employer by having it come right out of your salary. Or consider starting an investment plan that transfers money automatically from your bank account. We should mention though that this strategy, commonly referred to as dollar cost averaging, does not assure a profit or protect against a loss in declining markets.

Let's look at the fifth and final habit - pay close attention to expenses.

Investors always need to look at essential data before they invest. If you're looking at mutual funds, look at the company's investment track record, but also look closely at the fees the company charges. Over time even small differences in expense charges can make a substantial difference in your investment returns.

And higher fees don't necessarily translate into higher returns.

They don't. And remember, keeping an eye on costs often means keeping an eye on transactions. Periodic rebalancing is a good idea. But excessive transactions may generate capital gains taxes or transaction costs, or both.

Brett as always, thanks for joining us. This has been Investment Insights from TIAA-CREF. Thank you for listening.

Investment Insights is prepared by TIAA-CREF and represents the views of TIAA-CREF's Investment Strategy and Client Solutions Group. These views may change in response to changing economic and market conditions. Past performance is not indicative of future results. The material is for informational purposes only and should not be regarded as a recommendation or an offer to buy or sell any product or service to which this information may relate. Guaranteed income is provided by Insurance companies through annuity products and is subject to the Insurance company's claims-paying ability.

TIAA-CREF is a national financial services organization and the leading provider of retirement services in the academic, research, medical and cultural fields. Further information can be found at ttaa-cref.org.

Rebalancing does not protect against losses or guarantee that an investor's goal will be met. Because dollar cost averaging involves periodic investment, you should consider your financial ability and willingness to continue purchases through periods of low price levels. Dollar cost averaging does not assure a profit or protect against a loss in declining markets. TIAA-CREF or its affiliates do not provide tax advice. Taxpayers should seek advice based on their own particular circumstances from an independent tax advisor. TIAA-CREF products may be subject to market and other risk factors. See the applicable product literature, or visit www.ttaa-cref.org for details.

TIAA-CREF personnel in its investment management area provide investment advice and portfolio management services through the following entities: Teachers Advisors, Inc., TIAA-CREF Investment Management, LLC, and Teachers Insurance and Annuity Association. TIAA, TIAA-CREF, Teachers Insurance and Annuity Association, TIAA-CREF Asset Management and FINANCIAL SERVICES FOR THE GREATER GOOD are registered trademarks of Teachers Insurance and Annuity Association.

©2010 Teachers Insurance and Annuity Association—College Retirement Equities Fund (TIAA-CREF), New York, NY 10017.

C48039