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10 Principles for High Net Worth Investors

1 **Know what you own. And why you own it.**
Peter Lynch's famous quote from the eighties is just as important today. There has been an explosion in ETF's, hedge funds, private equity funds, and other commingled investment products over the last couple of decades. The benefit of these vehicles is that they give you access to strategies and asset classes that you might not otherwise have access to. Unfortunately, many investors do not understand what the managers are buying on their behalf. The lack of knowledge is not a huge problem in bull markets when portfolio values are rising and everyone is happy. It becomes a problem in bear markets when investors panic and sell at low prices. Knowing what you own and why you own it is critical to making informed decisions about your investments during any point in the cycle.

2 **Invest for the long-term. In finance, nothing is more powerful than compound interest.**
Time is your friend, at least in terms of wealth accumulation. Staying invested over market cycles allows growth not only on the original principal but also on the reinvestment of returns and income it has generated. The effect of such growth is exponential. The problem is this concept can be easily forgotten or intentionally ignored during volatile times. Too much cash or too short of an investment time horizon will ultimately erode your long-term returns. Let the math do the work for you and invest for the long-term.

3 **Keep it simple. At least as simple as possible.**
Complexity is an unfortunate by-product of wealth. Your family dynamics, balance sheet, and investment options are more intricate than those of the typical investor and add a layer of difficulty when managing your assets. Stay organized and emphasize simplicity when possible. If it gets too complicated, it can be impossible to adjust.

4 **Pay your taxes. Just not more than you have to.**
Generally speaking, the investment industry quotes returns and yields without including their client's various tax situations. You and your advisors not only need to be aware but also be proactive in managing your tax liability. This means being strategic about the particular asset classes and investment products you use as well as opportunistically capturing losses to offset gains.

5 **Have a proper view of risk. You might be thinking about it wrong.**
Not understanding investment risk in the correct context causes many investors to make poor decisions. It can lead to outsized concentrations, emotional decision making, and anchoring of bad prior investments. Most think of risk as asset price volatility. That is one aspect, but a better measurement is the probability of permanent loss across your time horizon. Risk has a time component as well. Think to yourself: what are the odds I lose money in this investment 10 years from now?

6 **Know your concentrations. They often represent your greatest risk and your greatest reward.**
The more you own of one investment, the more it determines the growth of your assets, both positively and negatively. Naturally, you may have concentrated into specific investments or businesses that you know and understand. As mentioned in rule #1, that's good, just keep in mind the risk associated with too much concentration. It might be time to diversify.

7 **Be opportunistic. Buy in fear and sell in euphoria.**
History might not repeat itself perfectly, but it sure does rhyme. Periods of fear and greed will continue to influence markets, giving you the ability to buy or sell assets at more attractive prices. Have a disciplined approach, but leave room to make adjustments as the market gives you opportunity.

8 **Invest privately. Capture the illiquidity premium to unlock additional return.**
One of your greatest return drivers is the illiquidity premium – the amount of additional return you can expect to receive by investing in less liquid assets. This concept applies to all markets, across all time horizons. Take advantage of the potentially higher returns and invest a portion of your portfolio privately. The odds of needing 100% of your assets in cash within a few days is slim to none. Liquidity matters, but there's two sides to every coin.

9 **Hire advisors. No, you cannot do this yourself.**
Your financial picture is too complex to handle alone. Find people you trust that can help you achieve your goals. Attorneys, accountants, estate planners, trust officers, and financial advisors all provide a professional focus to help you manage and protect your wealth. As the proverb says, "he who heeds counsel is wise." [1]

10 **Be flexible. Markets will change and so should you.**
This list should help you make better decisions on managing your wealth. Be flexible though. The trick is knowing when to ignore the rules.

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[1] Proverbs 12:15 - New King James Version (NKJV) © 1982 by Thomas Nelson, Inc.

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