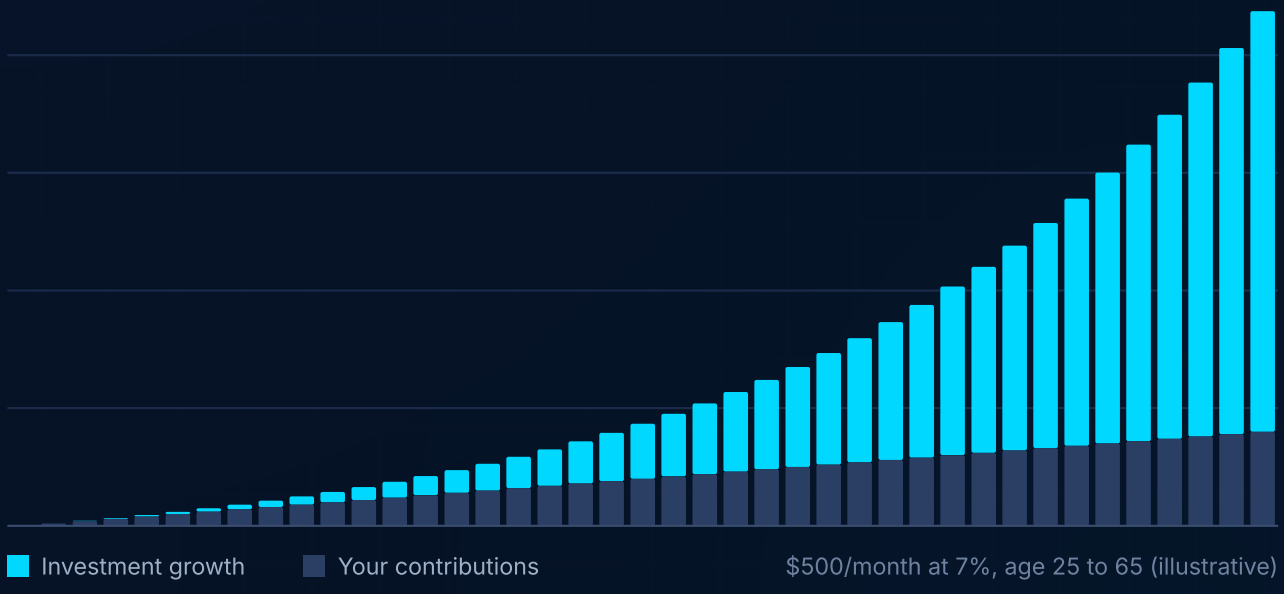
MarketUnclouded

THE LONG-TERM INVESTOR'S PLAYBOOK · 2026–27 EDITION

Long-Term Investing

How to set your foundation, choose the right accounts and allocation, and stay the course through every market, with 2026 and 2027 IRS limits.

Time does the heavy lifting. Yearly balance, $500 invested every month from age 25 to 65.



Market Unclouded LLC

By Daniel Higgins

marketunclouded.com

Long-Term Investing

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INTRODUCTION

How to use this playbook

Four decisions you control, and the one you don't.

Long-term investing builds wealth through four controllable decisions: how much you save, where you hold it, how you divide it, and whether you stay the course. Market direction is not on that list.

Most investors spend their energy on the one thing they cannot control, which is what the market will do next. This playbook moves that energy to the decisions that actually drive long-run results. Each chapter covers one decision in plain terms, with the figures, rules and account limits current as of November 2026.

The book is written for investors at every stage. If you are new to investing, read it front to back. If you already invest, go straight to accounts (Chapter 5), allocation (Chapter 6), example funds (Chapter 7) and maintenance (Chapter 9), then use the appendices to write and review your plan.

How the playbook is organized

1. **Part 1 · Foundations.** Why time in the market works, and what to have in place before you invest a dollar.
2. **Part 2 · Build the portfolio.** The asset classes, funds, accounts and allocation that make up a durable long-term portfolio, with example funds for each risk profile.
3. **Part 3 · Run the plan.** How to contribute, rebalance, manage taxes, handle bear markets and adjust as life changes.
4. **Appendices.** A yearly checklist, a fill-in Investment Policy Statement, a glossary and the sources behind the figures.

> **A NOTE ON NUMBERS**
>
> Return figures in this book use a 7% average annual return purely as an illustrative planning assumption. Real returns vary widely from year to year and are never guaranteed. Contribution limits come directly from IRS releases and are listed with their tax year.

PART 1 · CHAPTER 1

Why long-term investing works

Time, not timing, builds wealth.

Time is the long-term investor's greatest advantage. Compounding turns steady contributions into a balance many times larger than the money you put in.

The power of compounding

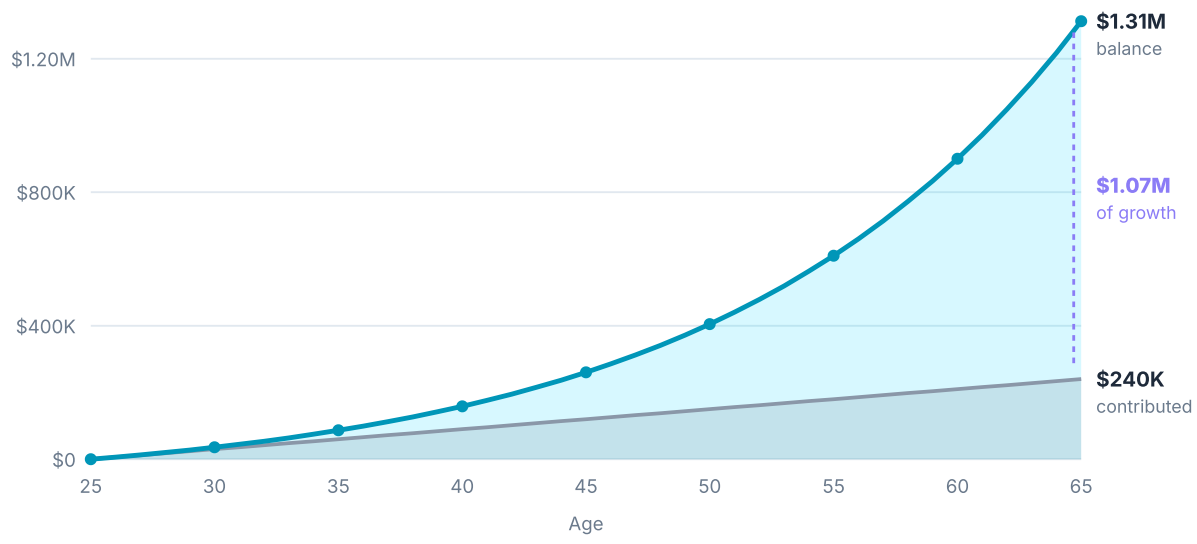
Compounding means your returns start earning returns of their own. The future value of a single investment grows exponentially with time:

$$FV = P \times (1 + r)^n$$

Here **P** is the amount invested, **r** the annual return and **n** the number of years. A quick shortcut is the **Rule of 72**: divide 72 by the annual return to estimate how many years it takes to double. At 7%, money doubles roughly every 10 years.

Start at 25: $500 a month grows to about $1.3 million by 65

Only $240K comes from contributions; the other 82% is investment growth.



Market Unclouded calculation · $500/month, 7% average annual return, compounded monthly · hypothetical, not a projection

Waiting is expensive. The same $500 a month started at 35 reaches about $610,000 by 65, and started at 45 about $260,000. Ten years of delay costs more than half the final balance.

Start investing at	Total contributed by 65	Balance at 65 (7%)
Age 25	$240,000	$1,312,400
Age 35	$180,000	$610,000
Age 45	$120,000	$260,500

$500 per month, 7% average annual return compounded monthly. Hypothetical illustration.

Time in the market beats timing the market

Stock returns arrive unevenly. A large share of long-run gains comes from a small number of strong days, and those days often cluster near the worst days, during periods of fear. Investors who sell to "wait it out" frequently miss the rebound. Staying invested is the simplest way to capture the market's return.

Inflation: the cost of doing nothing

Cash feels safe, but inflation erodes it quietly. At 3% inflation, $10,000 held in cash buys only about $5,500 worth of today's goods after 20 years. Invested at a 7% average return, the same $10,000 grows to about $38,700.

What returns are reasonable to expect

Over long periods, broad U.S. stocks have historically returned roughly 10% a year before inflation, and bonds considerably less (approximate long-run averages). Returns vary widely from year to year, and no return is guaranteed. Plan with conservative assumptions, and let any upside be a bonus rather than a requirement.

KEY TAKEAWAYS

- Compounding rewards time above all else: start as early as you can, even with small amounts.
- Use the Rule of 72 to estimate doubling time: 72 ÷ annual return.
- Cash loses purchasing power to inflation; long-term money needs to be invested.
- Plan with conservative return assumptions; returns are never guaranteed.

PART 1 · CHAPTER 2

Build the foundation first

Protect the plan before you invest.

Invest only money you will not need for at least five years, and only after your financial foundation is in place. A portfolio forced to sell in a downturn to cover an emergency loses its long-term advantage.

Step 1: Define your goals

Every dollar invested should have a job. Write down each goal with three facts: what it is, how much it will cost, and when you need the money.

Goal type	Typical time horizon	Where the money belongs
Emergency reserve	Immediate	High-yield savings or money market fund
Near-term purchase (car, wedding)	Under 3 years	Savings, CDs, Treasury bills
Home down payment	3–5 years	Mostly short-term bonds and cash
Children's education	5–18 years	529 plan, shifting to bonds as college nears
Retirement	10+ years	Diversified, stock-heavy portfolio

Step 2: Build an emergency fund

Hold three to six months of essential expenses in cash before investing outside a retirement plan. Single-income households, the self-employed and those with variable pay should lean toward six months or more. Keep it in an FDIC-insured high-yield savings account or a money market fund, not in stocks.

Step 3: Eliminate high-interest debt

Paying off a credit card charging 22% is a guaranteed, tax-free 22% return; no investment reliably beats that. Clear high-interest consumer debt before investing beyond any employer match. Low-rate debt, such as a mortgage under about 5%, can usually be paid on schedule while you invest.

Step 4: Know your time horizon

Your time horizon is the single biggest driver of how much risk you can take. Money needed in two years cannot wait out a 30% decline; money needed in 30 years has time to recover from one.

Step 5: Assess your risk tolerance

Risk tolerance has two parts, and you should invest to the lower of the two:

- **Risk capacity:** your financial ability to absorb losses, based on income stability, savings and time horizon.
- **Risk willingness:** your emotional ability to watch the portfolio fall without selling.

> **THE 35% TEST**
>
> Imagine your portfolio down 35% in a single year. If you would sell, your allocation is too aggressive. Choose a mix you can hold through a full bear market, because the plan you can stick with beats the optimal plan you abandon.

KEY TAKEAWAYS

- Give every invested dollar a goal, a cost and a date.
- Hold 3–6 months of essential expenses in cash before investing beyond your match.
- Pay off high-interest debt first; it is a guaranteed return.
- Set risk by the lower of your capacity and your willingness to take losses.

PART 2 · CHAPTER 3

The building blocks

Stocks for growth, bonds for stability, cash for needs.

A long-term portfolio is built from a few asset classes, each with a distinct job. Higher expected return always comes with higher short-term volatility.

Asset class	Primary role	Long-run return potential	Main risks
U.S. stocks	Growth	High	Deep, sometimes multi-year declines
International stocks	Growth, diversification	High	Currency swings, political and regional risk
Investment-grade bonds	Stability, income	Moderate	Rising interest rates, inflation
TIPS	Inflation protection	Low to moderate	Rate swings; lower return if inflation stays low
Cash and equivalents	Liquidity, safety	Low	Losing purchasing power to inflation
Real estate (REITs)	Income, diversification	Moderate to high	Rate sensitivity, property cycles
Commodities, gold, crypto	Speculation or hedging	Uncertain	High volatility; most produce no cash flow

Stocks (equities)

A share of stock is partial ownership of a business and a claim on its future earnings. Over decades, stock prices tend to follow corporate earnings growth plus dividends. Stocks are the engine of a long-term portfolio, but expect a decline of 10% or more roughly every year or two, and a 20%+ bear market a little more than once a decade on average.

Diversify within stocks across company size (large, mid, small), style (growth and value), sector and geography. A total-market index fund achieves most of this in a single holding.

Bonds (fixed income)

A bond is a loan to a government or company that pays interest and returns your principal at maturity. Bonds cushion stock declines and provide income. Two features drive bond risk:

- **Duration:** the longer a bond's maturity, the more its price falls when interest rates rise.
- **Credit quality:** lower-rated ("high-yield") bonds pay more because default risk is higher, and they tend to fall alongside stocks in a crisis.

For most long-term investors, high-quality intermediate-term government and investment-grade bonds do the stabilizing job best.

Cash and cash equivalents

Savings accounts, money market funds, CDs and Treasury bills protect principal and keep money accessible. They belong in your emergency fund and near-term goals, not as the core of a long-term portfolio.

Real estate and alternatives

Real estate investment trusts (REITs) give exposure to property income through a stock-like holding. Commodities, gold and cryptocurrencies can rise sharply but produce no earnings, so their long-run return is hard to estimate. If you hold them, keep them to a small, deliberate slice, commonly 0–5%, that you can afford to see fall sharply.

> **KEY TAKEAWAYS**
>
> - Stocks drive growth, bonds stabilize, cash covers near-term needs.
> - Expect frequent 10% declines and periodic 20%+ bear markets in stocks.
> - Favor high-quality, intermediate-term bonds for stability.
> - Keep speculative assets to a small slice you can afford to lose.

PART 2 · CHAPTER 4

Investment vehicles

Own the market cheaply.

For most long-term investors, low-cost, broad-market index funds and ETFs are the most reliable core holding. They deliver the market's return, spread risk across thousands of companies and keep fees close to zero.

Vehicle	What it is	Best for	Watch out for
Index mutual fund	Pooled fund tracking an index; priced once daily	Automatic contributions in retirement plans	Minimum investments at some providers

Vehicle	What it is	Best for	Watch out for
Exchange-traded fund (ETF)	Fund that trades like a stock all day	Taxable accounts; low-cost core holdings	Niche, leveraged or inverse ETFs built for trading
Target-date fund	One fund that grows more conservative toward a set year	Hands-off investors who want one decision	Glide paths and fees vary by provider
Actively managed fund	Manager selects securities to beat a benchmark	Selected niches, if costs are low	Higher fees; most trail their index long-term
Individual stocks	Direct ownership of single companies	A small satellite slice for engaged investors	Concentration risk; demands research
Individual bonds and Treasuries	Direct loans held to maturity	Matching a known future expense	Less diversification in corporate issues

Why index funds win over time

A fund that holds the whole market earns the market's return minus a tiny fee. Active managers, as a group, earn the market's return minus higher fees and trading costs. S&P Dow Jones Indices' SPIVA scorecard found that 79% of active large-cap U.S. stock funds trailed the S&P 500 in 2025, and over 15-year periods no U.S. stock category has had a majority of active managers beat its benchmark.

Costs compound too

The expense ratio is the annual fee a fund charges as a percentage of your assets. It looks small, but it is deducted every year, for decades.

Annual fee	$100,000 after 30 years (7% gross)	Lost to fees vs 0.05%
0.05%	$750,600	—
0.25%	$709,600	$41,000
0.50%	$661,400	$89,200
1.00%	$574,300	$176,300

Market Unclouded calculation; hypothetical, no further contributions.

A core-and-satellite approach

Investors who enjoy picking stocks can keep the discipline of indexing while still participating. Hold 80–95% of the portfolio in broad index funds (the core) and limit individual stocks or thematic positions to 5–20% (the satellite). The core does the heavy lifting; the satellite cannot sink the plan.

What to check before buying any fund

1. **Expense ratio:** broad index funds are widely available below 0.10%.

2. **What it holds:** the index or strategy, top holdings and number of holdings.
3. **Tracking:** how closely it has matched its index after fees.
4. **Size and liquidity:** established funds with tight bid-ask spreads.
5. **Tax efficiency:** history of capital-gains distributions, which matters in taxable accounts.

KEY TAKEAWAYS

- Make low-cost, broad index funds or ETFs the core of the portfolio.
- Most active funds trail their benchmark over long periods.
- A 1% fee can cost about a quarter of a 30-year result.
- Keep individual stocks and themes to a limited satellite slice.

PART 2 · CHAPTER 5

The right accounts

Where you hold it matters as much as what you hold.

Tax-advantaged accounts let money compound without annual tax drag. Over decades, that difference can be worth hundreds of thousands of dollars.

Account types at a glance

Account	Tax treatment	Key features	Best for
401(k), 403(b), 457, TSP (traditional)	Pre-tax in; taxed on withdrawal	Employer match; high limits; payroll automation	Most workers, especially in higher brackets now
Roth 401(k)	After-tax in; tax-free qualified withdrawals	No income limit; same limit as traditional	Workers expecting equal or higher taxes later
Traditional IRA	Deductible if eligible; taxed on withdrawal	Deduction phases out with a workplace plan	Workers without a plan; rollovers
Roth IRA	After-tax in; tax-free qualified growth	Income limits; contributions withdrawable; no owner RMDs	Younger and moderate-income investors
Health Savings Account	Deductible in, tax-free growth, tax-free medical withdrawals	Requires an HSA-eligible health plan; can be invested	Triple tax advantage; a stealth retirement account
529 plan	After-tax in; tax-free growth for education	State deductions in many states; limited Roth rollover	Children's and grandchildren's education
Taxable brokerage	Dividends and realized gains taxed	No limits; full flexibility	Savings beyond tax-advantaged room

Contribution limits

Limit	2026	2027
401(k) / 403(b) / 457 / TSP employee deferral	$24,500	$25,500
Catch-up, age 50+	$8,000	$8,500
Catch-up, ages 60–63	$11,250	$11,750
IRA (traditional and Roth combined)	$7,500	$7,500
IRA catch-up, age 50+	$1,100	$1,100
Roth IRA phase-out, single	$153,000–$168,000	$158,000–$173,000
Roth IRA phase-out, married filing jointly	$242,000–$252,000	$250,000–$260,000
HSA, self-only / family	$4,400 / $8,750	$4,500 / $9,000
HSA catch-up, age 55+	$1,000	$1,000

Sources: IRS news releases IR-2025-111 and IR-2026-136; IRS Rev. Procs. 2025-19 and 2026-24. Roth phase-outs use modified adjusted gross income.

TWO RULES WORTH KNOWING

- Starting in 2026, workers who earned more than $150,000 in FICA wages the prior year must make 401(k) catch-up contributions as Roth contributions.
- Investors above the Roth IRA income limit can often still fund one through a “backdoor” Roth conversion, which has tax rules that warrant professional review.

Traditional or Roth?

The choice is a bet on your tax rate now versus in retirement.

- **Choose traditional (pre-tax)** when your current tax bracket is high and you expect a lower one in retirement.
- **Choose Roth** when you are early in your career, in a low bracket, or expect higher taxes later.
- **Split contributions** when unsure. Holding both gives you tax flexibility in retirement.

The contribution order of operations

Once your emergency fund is built and high-interest debt is gone, a common priority sequence is:

1. Contribute enough to your 401(k) to capture the **full employer match**, an immediate return.
2. Fund an **HSA** to the limit if you are eligible, and invest it.
3. Fund a **Roth or traditional IRA** to the limit.
4. Return to the **401(k)** and raise contributions toward the maximum.

5. Invest additional savings in a **taxable brokerage account**, or a **529 plan** for education goals.

The order can shift with your plan's fees and fund options, your tax bracket and your goals.

KEY TAKEAWAYS

- Use tax-advantaged accounts before taxable ones.
- 2027 limits: $25,500 for a 401(k), $7,500 for an IRA, $4,500 / $9,000 for an HSA.
- Choose traditional or Roth based on your tax rate now versus later; split if unsure.
- Always capture the full employer match first.

PART 2 · CHAPTER 6

Asset allocation and diversification

The decision that drives your results.

Your mix of stocks, bonds and cash determines most of your portfolio's long-run return and almost all of its volatility. Choosing it well, then sticking with it, matters far more than picking individual investments.

Diversification on four levels

- **Across asset classes:** stocks, bonds and cash respond differently to the economy.
- **Within stocks:** thousands of companies across sizes, sectors and styles.
- **Across geography:** U.S. and international markets have led in different decades.
- **Across time:** investing steadily spreads purchases across market conditions.

Setting your stock-to-bond mix

Start from your time horizon and risk tolerance (Chapter 2), then adjust. Two common rules of thumb give a starting point, not an answer:

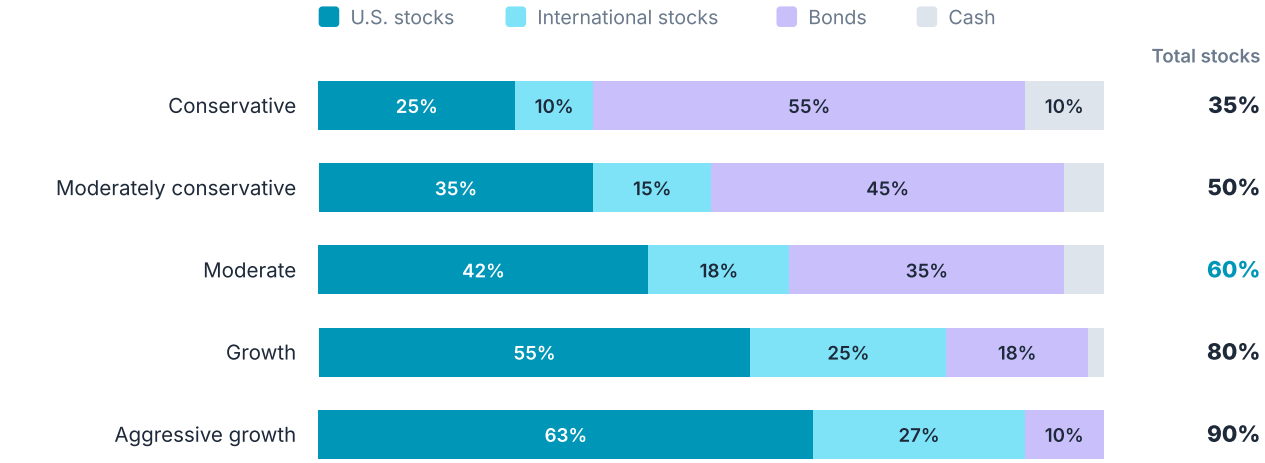
- **"110 minus your age"** in stocks: a 35-year-old would hold about 75% stocks.
- **Target-date fund glide paths:** most hold roughly 85–90% stocks for investors 30+ years from retirement and about 40–50% at the target date.

Within stocks, many investors hold 20–40% internationally to reduce dependence on a single economy.

Illustrative model portfolios

Five model mixes: stocks range from 35% to 90%

Each can be built with three low-cost funds: total U.S. stock, total international stock and total bond market.



Market Unclouded illustrative allocations · for education only, not recommendations

The **moderate** mix is a common middle ground for investors 10–20 years from their goal. Move toward the growth models with a longer horizon and higher tolerance, and toward the conservative models as you approach the goal. Chapter 7 shows example funds for each model.

Concentration risk

Holding more than 10% of your portfolio in any single stock, including your employer's stock, adds risk that diversification is meant to remove. Heavy exposure to one sector or theme, such as technology or AI, carries the same danger even across many companies. Know what your funds hold: a large share of market-cap-weighted indexes now sits in their biggest companies.

KEY TAKEAWAYS

- Asset allocation drives most of your return and nearly all of your volatility.
- Diversify across assets, companies, countries and time.
- A three-fund portfolio can implement any of the model mixes.
- Cap any single stock at about 10% of the portfolio.

PART 2 · CHAPTER 7

What to buy: example funds for each risk profile

VOO, VTI and the three-fund portfolio in practice.

Any of the five model portfolios in Chapter 6 can be built with three or four low-cost index funds. The tickers in this chapter are widely used examples from three large fund providers. They illustrate how the models work in practice; they are not recommendations.

The building blocks: example funds by role

Role in the portfolio	Vanguard ETF	iShares ETF	Fidelity index fund
U.S. stocks: S&P 500 (500 large companies)	VOO · 0.03%	IVV · 0.03%	FXAIX · 0.015%
U.S. stocks: total market (large, mid and small)	VTI · 0.03%	ITOT · 0.03%	FSKAX · 0.015%
International stocks (developed and emerging)	VXUS · 0.05%	IXUS · 0.07%	FTIHX · 0.06%
U.S. investment-grade bonds	BND · 0.03%	AGG · 0.03%	FXNAX · 0.025%
Cash and Treasury bills	Broker money market fund	SGOV · 0.09%	Broker money market fund

Annual expense ratios as published by the fund companies and fund-research sites in 2026. Fees change; confirm the current figure on the fund's own page before buying. Fidelity index funds are mutual funds and are typically bought through a Fidelity account.

VOO or VTI?

VOO tracks the S&P 500: about 500 of the largest U.S. companies. **VTI** holds nearly the entire U.S. market, adding thousands of mid- and small-cap companies to the same large caps. Both charge 0.03% a year, and because the largest companies dominate both funds, their long-run returns have been very close.

- **Choose VOO** (or IVV, FXAIX) if you want the familiar large-company benchmark, which is also the index most market commentary refers to.
- **Choose VTI** (or ITOT, FSKAX) if you want every U.S. company size in one fund.
- **Pick one, not both.** VOO's holdings are already the largest part of VTI, so owning both mostly duplicates the same companies.

Either one is a sound U.S. core. In the examples that follow, “VOO or VTI” means you choose one of the two.

Example portfolios by risk tolerance

Each example below turns one of the Chapter 6 model mixes into specific funds, with the dollar split for every $10,000 invested. Start with the profile that matches your time horizon and the 35% test in Chapter 2, and use

the lower-risk profile if you are between two.

Conservative

35% stocks · 65% bonds and cash

Fits: Investors within a few years of their goal, retirees who prioritize stability, or anyone who would sell if the portfolio fell sharply.

TICKER	ROLE	WEIGHT	PER $10,000
VOO or **VTI**	U.S. stocks	**25%**	$2,500
VXUS	International stocks	**10%**	$1,000
BND	U.S. bonds	**55%**	$5,500
SGOV	Cash / T-bills	**10%**	$1,000

Blended fee ≈ 0.038% a year

One-fund alternative: **AOK (30/70)**

Moderately conservative

50% stocks · 50% bonds and cash

Fits: Investors roughly 5–10 years from their goal, or retirees drawing income who still want some growth.

TICKER	ROLE	WEIGHT	PER $10,000
VOO or **VTI**	U.S. stocks	**35%**	$3,500
VXUS	International stocks	**15%**	$1,500
BND	U.S. bonds	**45%**	$4,500
SGOV	Cash / T-bills	**5%**	$500

Blended fee ≈ 0.036% a year

One-fund alternative: **AOM (40/60)**

Moderate

60% stocks · 40% bonds and cash

Fits: Investors roughly 10–20 years from their goal who want growth with a meaningful bond cushion.

TICKER	ROLE	WEIGHT	PER $10,000
VOO or **VTI**	U.S. stocks	**42%**	$4,200
VXUS	International stocks	**18%**	$1,800
BND	U.S. bonds	**35%**	$3,500
SGOV	Cash / T-bills	**5%**	$500

Blended fee ≈ 0.037% a year

One-fund alternative: **AOR (60/40)**

Growth

80% stocks · 20% bonds and cash

Fits: Investors 20+ years from their goal with steady income who can hold through a deep bear market.

TICKER	ROLE	WEIGHT	PER $10,000
VOO or **VTI**	U.S. stocks	**55%**	$5,500
VXUS	International stocks	**25%**	$2,500
BND	U.S. bonds	**18%**	$1,800
SGOV	Cash / T-bills	**2%**	$200

Blended fee ≈ 0.036% a year

One-fund alternative: **AOA (80/20)**

Aggressive growth

90% stocks · 10% bonds and cash

Fits: Investors 30+ years from their goal with stable income and a record of staying invested through declines.

TICKER	ROLE	WEIGHT	PER $10,000
VOO or **VTI**	U.S. stocks	**63%**	$6,300
VXUS	International stocks	**27%**	$2,700
BND	U.S. bonds	**10%**	$1,000

Blended fee ≈ 0.035% a year

One-fund alternative: **A target-date fund for a distant retirement year**

Market Unclouded illustrations, not recommendations. Blended fee = weighted average of the example ETF expense ratios (VOO/VTI 0.03%, VXUS 0.05%, BND 0.03%, SGOV 0.09%). iShares Core Allocation ETFs (AOK, AOM, AOR, AOA) hold a fixed stock/bond mix; their mix differs slightly from some models.

EXAMPLE · A VOO-BASED GROWTH PORTFOLIO

An investor with a long horizon and a high tolerance for declines chooses the Growth profile. With $10,000 to invest, the three-fund version would be $5,500 in **VOO**, $2,500 in **VXUS**, $1,800 in **BND** and $200 in **SGOV** or a money market fund. The blended fee is about 0.036%, or roughly $3.60 a year. New contributions go to whichever fund is furthest below its target, and the portfolio is rebalanced once a year (Chapter 9).

One-fund options

If you would rather not manage three funds, a single allocation fund holds a fixed stock-and-bond mix and rebalances for you.

Fund	Stocks / bonds	Closest model	Net expense ratio
iShares Core 30/70 Conservative Allocation ETF (AOK)	30 / 70	Conservative	0.15%
iShares Core 40/60 Moderate Allocation ETF (AOM)	40 / 60	Moderately conservative	0.15%

Fund	Stocks / bonds	Closest model	Net expense ratio
iShares Core 60/40 Balanced Allocation ETF (AOR)	60 / 40	Moderate	0.15%
iShares Core 80/20 Aggressive Allocation ETF (AOA)	80 / 20	Growth	0.15%
Target-date fund (Vanguard, Fidelity, iShares and others)	Shifts with age	Any, by retirement year	Varies by provider

The trade-off is cost against convenience. A one-fund allocation ETF at 0.15% costs about $110 more a year per $100,000 than a three-fund portfolio near 0.04%, but it never needs rebalancing and removes the temptation to tinker. Hold a one-fund option on its own in an account; adding other funds alongside it undoes its built-in mix.

Using these funds in your accounts

- **401(k) and 403(b) plans** offer a fixed menu, so these exact tickers may not be available. Look for the plan's S&P 500 or total-market index fund, an international index fund and a bond index fund, and compare their expense ratios.
- **Asset location** (Chapter 9): hold BND in tax-deferred accounts where possible, and VOO or VTI and VXUS in taxable accounts. International funds held in a taxable account may also let you claim the foreign tax credit.
- **Buy whole or fractional shares** on a schedule. Most major brokers offer commission-free ETF trades and fractional shares, so small, automatic contributions work with ETFs too.

Funds to approach with caution

- **Leveraged and inverse ETFs** reset daily and are built for short-term trading. Over long periods they can lose money even when the market goes up.
- **Sector and thematic funds** (AI, semiconductors, clean energy) concentrate risk. Keep them in the satellite slice, if anywhere (Chapter 4).
- **A single growth or Nasdaq-100 fund as your whole portfolio** is a concentrated bet on one style and sector, not a diversified core.
- **High-dividend funds chosen for yield alone** can tilt toward a few industries and add taxable income. Total return matters more than the dividend.

KEY TAKEAWAYS

- Three funds (U.S. stocks, international stocks and bonds) can build any of the five model portfolios.
- VOO and VTI are both sound U.S. cores at 0.03%; pick one, not both.
- A three-fund portfolio costs around 0.04% a year; one-fund allocation ETFs cost about 0.15% but rebalance for you.
- In a 401(k), use the closest low-cost index funds on the plan menu.
- Avoid leveraged, inverse and single-theme funds as core holdings.

PART 3 · CHAPTER 8

Putting money to work

Automatic, regular, rising.

The best contribution plan is automatic, regular and raised over time. Money invested sooner has more time to compound, and automation removes the temptation to wait for a "better" moment.

Dollar-cost averaging: investing from every paycheck

Investing a fixed amount on a fixed schedule, such as every paycheck into a 401(k), is called dollar-cost averaging. You buy more shares when prices are low and fewer when they are high, and you never have to decide when to invest. For most people saving from income, this is simply how investing works, and it is an excellent habit.

Lump sum or spread it out?

When you receive a large sum at once, such as a bonus, an inheritance or a home sale, the evidence favors investing it promptly. Vanguard's 2023 study of 1976–2022 data found that investing a lump sum immediately beat spreading it over time 68% of the time, because markets rise more often than they fall.

Spreading the money in still beat holding cash 69% of the time. If investing a windfall all at once would cause enough anxiety that you might not invest at all, phase it in over three to six months on a fixed schedule, and commit to the schedule in advance.

Automate everything

- Set 401(k) contributions as a percentage of pay so they rise with raises.
- Schedule automatic monthly transfers into your IRA and brokerage accounts on payday.
- Turn on automatic dividend reinvestment in accounts where you are still building.
- Use your plan's **automatic escalation** feature, if offered, to raise contributions by 1% a year.

How much to save

A widely used benchmark is to save **15% of gross income** for retirement, including any employer match, starting in your 20s or early 30s. Starting later means a higher rate. When you get a raise, direct at least half of it to savings before it reaches your spending.

Stay invested between contributions

Keep cash in the investment account invested according to plan. Uninvested cash sitting in a brokerage account is one of the most common, and most invisible, drags on long-term results.

KEY TAKEAWAYS

- Automate contributions so investing happens without a decision.
- Invest windfalls promptly; phase in on a fixed schedule only if needed.
- Aim to save 15% of gross income for retirement, including the match.
- Don't let cash sit uninvested in investment accounts.

PART 3 · CHAPTER 9

Maintaining the portfolio

Rebalance, locate, harvest.

A long-term portfolio needs little attention, but it does need some: an annual rebalance, smart placement of assets across accounts, and opportunistic tax management. Done well, these habits add return without adding risk.

Rebalancing

Markets push your allocation away from its target. After a strong stock rally, a 60/40 portfolio can drift to 70/30 and carry more risk than you chose. Rebalancing restores the target by trimming what has grown and adding to what has lagged, a disciplined way to buy low and sell high. Pick one method and apply it consistently:

- **Calendar:** rebalance once a year on a fixed date.
- **Threshold:** rebalance whenever an asset class drifts more than 5 percentage points from its target.
- **Cash-flow:** direct new contributions or withdrawals toward the underweight asset, avoiding sales altogether.

In taxable accounts, rebalance with new money or inside tax-advantaged accounts first, to avoid realizing capital gains.

Asset location

Asset location places each investment in the account where it is taxed least.

Holding	Preferred account	Why
Taxable bonds, REITs	Traditional 401(k) or IRA	Interest and REIT income are taxed as ordinary income
Highest-growth stocks	Roth IRA or Roth 401(k)	Decades of growth are withdrawn tax-free
Broad stock index funds and ETFs	Taxable brokerage	Low turnover; qualified dividends and long-term gains get lower rates
Municipal bonds	Taxable brokerage	Interest is generally exempt from federal tax

Capital gains basics

Investments held **more than one year** qualify for long-term capital gains rates of 0%, 15% or 20%, depending on income, plus a possible 3.8% net investment income tax for higher earners. Gains on holdings of one year or less are taxed as ordinary income. Simply holding longer than a year is one of the easiest tax savings available.

Tax-loss harvesting

When an investment in a taxable account falls below its cost, you can sell it to realize the loss and immediately buy a similar, but not substantially identical, fund to stay invested. Realized losses offset capital gains, then up to $3,000 of ordinary income per year, with the remainder carried forward indefinitely.

> **THE WASH-SALE RULE**
>
> A loss is disallowed if you buy the same or a substantially identical security within **30 days before or after** the sale, a 61-day window. This applies across all your accounts, including IRAs and a spouse's accounts. A disallowed loss is generally added to the cost basis of the replacement shares, except when the repurchase happens in an IRA, where the loss is lost permanently.

Keep records

Track cost basis, purchase dates and reinvested dividends for every taxable holding. Brokers report most of this, but transfers and older positions can have gaps. Review tax decisions with a CPA or tax professional before acting.

KEY TAKEAWAYS

- Rebalance on a fixed schedule or a 5-point drift threshold.
- Place bonds in tax-deferred accounts, growth in Roth, index funds in taxable.
- Hold more than a year for lower long-term capital gains rates.
- Harvest losses, but respect the 61-day wash-sale window across all accounts.

PART 3 · CHAPTER 10

The behavioral edge

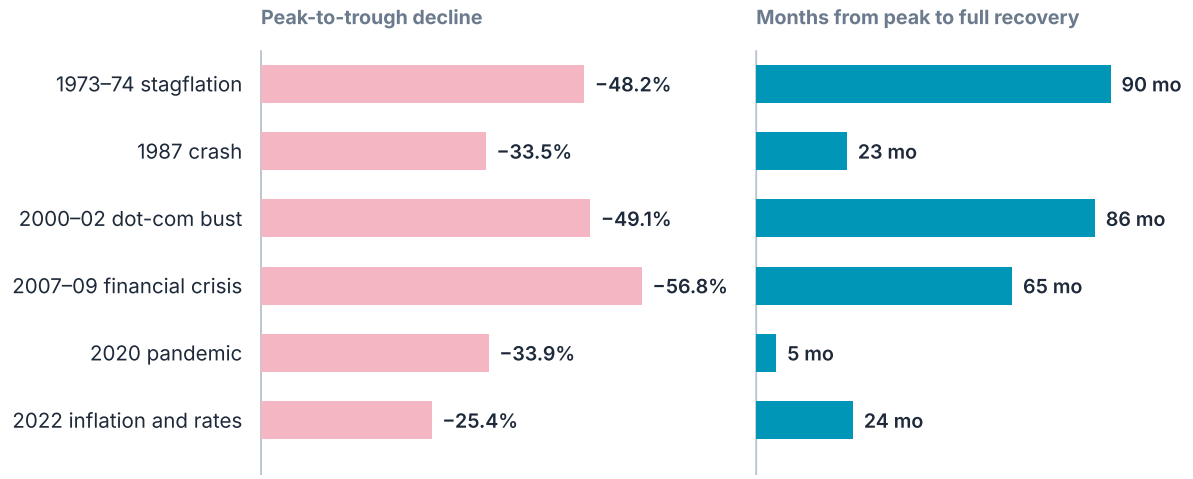
Your reactions matter more than the market's.

The biggest threat to most portfolios is not the market but the investor's reaction to it. Selling in a panic turns a temporary decline into a permanent loss, and history shows patience has been rewarded.

Declines are normal, and have been temporary

Six major S&P 500 bear markets since 1973: each fully recovered

Recovery to the prior peak took from 5 to 90 months.



S&P 500 price index, closing levels · Plus500 market history · 2007–09 recovery months calculated from the Oct 2007 peak and Mar 2013 recovery

Since 1950, the S&P 500 has had roughly 38 corrections of 10% or more and 14 bear markets of 20% or more. Each felt different and frightening at the time. Each eventually recovered, though some took years, and past recoveries do not guarantee future ones. This is why money needed within five years does not belong in stocks.

The investor's mind: biases to watch

Bias	What it looks like	The counter-move
Loss aversion	Losses feel about twice as painful as equal gains feel good	Decide in advance what you will do in a decline
Recency bias	Assuming the recent trend will continue indefinitely	Look at full market cycles, not the last year
Overconfidence	Trading often in the belief you can outguess the market	Measure your results against a simple index
Herd behavior	Buying what everyone is excited about, after it has soared	Stick to your target allocation
Anchoring	Waiting to sell a loser until it gets “back to even”	Judge each holding on its future, not your cost
Home bias	Overweighting your own country, industry or employer	Diversify globally; cap single positions

Ten common mistakes to avoid

1. Waiting for the "right time" to start investing.
2. Selling during a market decline.
3. Chasing last year's best-performing fund or hottest theme.
4. Paying high fees for average results.
5. Holding too much of a single stock, including an employer's.
6. Checking the portfolio daily and reacting to headlines.
7. Keeping long-term money in cash "until things settle down."
8. Ignoring tax-advantaged accounts and employer matches.
9. Taking more risk than you can stomach, or far less than your goals require.
10. Having no written plan to follow when markets get rough.

> **WRITE IT DOWN**
>
> A one-page Investment Policy Statement is your plan in writing: your goals, target allocation, rebalancing rule, contribution schedule and what you will do in a 30% decline. Write it while markets are calm, and read it before acting when they are not. Appendix B gives you a worksheet.

KEY TAKEAWAYS

- Bear markets are a normal part of investing; the six since 1973 all recovered.
- Know your biases and decide your responses before markets fall.
- Avoid the ten common mistakes, especially selling in a decline.
- Keep a written Investment Policy Statement and follow it.

PART 3 · CHAPTER 11

Investing through life stages

From accumulation to income.

Your strategy should evolve as your time horizon shortens: maximize growth while young, protect gains as retirement nears, and convert savings into dependable income once you stop working.

Life stage	Primary focus	Typical stocks	Key moves
Early career (20s–30s)	Build the habit; maximize growth	80–95%	Capture the match, favor Roth accounts, build the emergency fund, automate
Mid-career (40s–50s)	Accelerate savings; manage complexity	60–80%	Raise contributions with income, use catch-ups at 50, fund 529s, review insurance and estate documents
Pre-retirement (5–10 years out)	Reduce sequence risk; plan income	50–65%	Build a 1–3 year cash and short-bond reserve; model Social Security and healthcare
Retirement	Sustainable income; longevity	40–60%	Set a withdrawal rate, sequence withdrawals for taxes, rebalance annually

Sequence-of-returns risk

The order of returns matters most in the years just before and after retirement. A deep decline early in retirement, while you are withdrawing, can permanently shrink a portfolio that would have been fine had the same decline come ten years later. Holding one to three years of planned withdrawals in cash and short-term bonds lets you avoid selling stocks in a downturn.

How much can you withdraw?

The classic **4% guideline** suggests withdrawing 4% of the portfolio in the first year of retirement, then adjusting that dollar amount for inflation each year. Historically, this has sustained a balanced portfolio for about 30 years in most periods tested. Treat it as a starting point: flexible spending, such as trimming withdrawals after bad years, meaningfully improves the odds of success.

THE 25× TARGET

The 4% guideline implies a simple savings target: about 25 times the annual income you need from the portfolio. Replacing $60,000 a year calls for roughly $1.5 million.

Coordinating retirement income

- **Social Security:** benefits can start at 62, but each year you delay up to age 70 increases the monthly check permanently.
- **Withdrawal order:** a common sequence is taxable accounts first, then tax-deferred, then Roth, adjusted to fill low tax brackets in early retirement.
- **Roth conversions:** the low-income years between retirement and Social Security can be a window to convert pre-tax savings at lower rates.
- **Required minimum distributions:** under current law, withdrawals from tax-deferred accounts must begin at age 73, or 75 for those born in 1960 or later.
- **Healthcare:** plan for premiums and out-of-pocket costs before Medicare eligibility at 65; a funded HSA is ideal for this.

Target-date funds as an autopilot

A target-date fund handles this entire glide path automatically, shifting from stocks to bonds as its target year approaches. Choose the fund closest to your expected retirement year, check its fees, and hold it as your sole fund in that account; mixing it with other funds undoes its built-in allocation.

KEY TAKEAWAYS

- Shift gradually from growth to stability as your goal approaches.
- Guard against sequence risk with a 1–3 year cash and short-bond reserve.
- Use 4% as a starting withdrawal rate and 25× income as a savings target.
- Coordinate Social Security, withdrawal order, Roth conversions and RMDs.

APPENDIX A

The annual investor's checklist

One focused review a year keeps the plan on track.

Work through this list each year, and again after any major life event such as a new job, marriage, a child, an inheritance or a move.

FOUNDATION

- [ ] Emergency fund still covers 3–6 months of essential expenses
- [ ] No high-interest debt carried month to month
- [ ] Goals, target amounts and dates updated

CONTRIBUTIONS

- [ ] Contributing enough to capture the full employer match
- [ ] Contributions updated for the new IRS limits (2027: $25,500 401(k), $7,500 IRA)
- [ ] Savings rate raised after any pay increase
- [ ] HSA and 529 contributions set for the year

PORTFOLIO

- [ ] Allocation compared with target; rebalanced if drift exceeds 5 points
- [ ] Fund expense ratios reviewed; higher-cost funds replaced where practical
- [ ] No single stock or sector above your concentration limit
- [ ] Uninvested cash in investment accounts put to work

TAXES

- [ ] Losses harvested where useful, with the wash-sale window respected
- [ ] Asset location reviewed across taxable, tax-deferred and Roth accounts
- [ ] Roth conversion opportunity evaluated in low-income years
- [ ] Cost-basis records checked for transferred or older positions

PROTECTION AND ESTATE

- [ ] Beneficiaries current on every retirement account and policy
- [ ] Life and disability insurance adequate for dependents
- [ ] Will, powers of attorney and healthcare directives up to date

PLAN

- [ ] Investment Policy Statement reread and updated
- [ ] Retirement projection rerun with current balances and assumptions

APPENDIX B

Investment Policy Statement worksheet

Your plan in writing, for the day markets test it.

Complete this page while markets are calm. Review it every year with the checklist in Appendix A, and read it before making any change during a market decline.

1. My goals

Goal, target amount and date for each (for example: retirement, $1.5M, 2052).

2. My time horizon and risk tolerance

Years until I need the money; the largest one-year decline I can hold through without selling.

3. My target allocation

Percentages should total 100%.

U.S. stocks	International stocks	Bonds	Cash

4. Accounts and funds

Which accounts I use, in priority order, and the core fund for each asset class.

5. Contribution plan

Amount or percentage, schedule and automatic increases.

6. Rebalancing rule

Calendar date or drift threshold; how I will rebalance in taxable accounts.

7. What I will do in a 30% decline

Write the specific actions you will and will not take.

8. When I will change this plan

Only for life changes, not market moves: list the events that would trigger a review.

Signed _____ Date _____ Next review _____

APPENDIX C

Glossary

Key terms used in this playbook.

Asset allocation
How a portfolio is divided among stocks, bonds, cash and other assets.

Asset location
Placing each holding in the account type where it is taxed least.

Bear market
A decline of 20% or more from a market's recent peak.

Capital gain
Profit from selling an investment for more than its cost basis.

Compounding
Earning returns on previous returns, so growth accelerates over time.

Correction
A decline of 10% to 20% from a recent peak.

Cost basis
What you paid for an investment, used to calculate taxable gain or loss.

Diversification
Spreading money across many investments so no single one can sink the portfolio.

Dividend
A share of company profits paid to shareholders.

Dollar-cost averaging
Investing a fixed amount on a regular schedule regardless of price.

Duration
A measure of how sensitive a bond's price is to interest-rate changes.

ETF
Exchange-traded fund; a fund that trades on an exchange like a stock.

Expense ratio
The annual fee a fund charges, as a percentage of assets.

Glide path
The planned shift from stocks to bonds as a target date approaches.

Index fund
A fund designed to match the return of a market index.

Investment Policy Statement
A written plan covering goals, allocation, contributions and rules for acting.

Rebalancing
Trading back to your target allocation after markets cause drift.

Required minimum distribution
The minimum annual withdrawal required from tax-deferred accounts after a set age.

Roth
An account funded with after-tax money whose qualified withdrawals are tax-free.

Sequence-of-returns risk
The danger that poor returns early in retirement permanently reduce a portfolio.

Tax-loss harvesting
Selling an investment at a loss to offset gains and up to $3,000 of income.

Wash sale
Buying a substantially identical security within 30 days of a loss sale, which disallows the loss.

APPENDIX D

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SEE THE MARKET CLEARLY

Stock Trading Masterclass
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