



What a Difference a Year Makes

At the end of 2018 the market was in turmoil. The stock market was down over 19 percent by December 24th from the market highs and there was no end in sight. How did you react to seeing your portfolio shrink? If you felt sick to your stomach and wanted to sell everything, you should have reassessed your tolerance for risk. The same thing holds true today.

We had a client who on December 24th, 2018 wanted to sell all his stocks. He couldn't sleep and the decline in the market was causing him tremendous stress. He checked his portfolio multiple times a day. After multiple meetings and phone calls with this client, we worked with him to look past the recent market performance and make a wise, long-term decision that was consistent with his goals. He didn't sell anything. A year later his portfolio is up 25 percent.

The stock market a banner year in 2019. It's a great feeling to look at your portfolio and see all the gains of the last 12 months. The feeling we get when our portfolios achieve this type of return is much different than we had at the end of 2018. But I would encourage you to take a step back and reassess your emotions as well as tolerance for risk. After all the two biggest drivers of the stock market are fear and greed. We tend to get fearful as our portfolio goes down in value, and we become greedy as it appreciates.

For you to achieve long-term success as an investor, it's important to understand your emotions and how to control them. Emotions can be wonderful but none of us make our best decisions when gripped by strong emotions. Fear and greed both strong emotions. As a professional money manager, the way we handle these emotions is straight forward. We have a strategy in place, and we do not deviate.

It all goes back to the amount of risk each client can tolerate. We assess each client through a Client Profile questionnaire, which is completed prior to investing any money. What tends to happen over time, is that the initial questionnaire needs to be adjusted based on our experience with each client. We have found that risk tolerance is gauged over time in the market, and how each client reacts to market fluctuations.

Now here we are in 2020 and I find that the clients who were concerned at this point last year want to be more aggressive, because they have seen the gains and they want more. This thinking is flawed. It's human nature to want to achieve large investment returns, but at the end of the day what matters is understanding your risk tolerance and having a disciplined investment strategy. We help clients invest based on a disciplined approach designed to remove the emotion that can lead to bad decisions. At some point soon, the market will have a correction again. How you will react to it and do you have a strategy in place to help you achieve your goals?