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Perspectives & Expectations?

How do you measure your portfolio? When do you decide if you are doing well or not? Against what benchmark do you measure success? What are your expectations? Are you looking for greatness? Or does success mean making more than you would earn in CDs?

What about volatility? I find it interesting if I say “volatility” most people automatically think “stock market going down.” By definition, volatility means change in value period. Both Up and Down.

According to research done by Noble Prize winners Richard Thaler, Amos Tversky, and Danny Kahneman, humans are by nature more inclined to feel market drops more than advances ...i.e. “loss aversion.” I see this almost every day. Ask yourself: would you consider yourself an: 1) aggressive; 2) moderate; or 3) conservative investor? What do you think most other people say? Do you think age has a difference? What about net worth?

In my un-scientific, random and not measured study, I find the majority of people I speak with consider themselves either moderate or conservative risk takers I cannot recall the last person who referred to themselves as an “aggressive investor.” These results include persons of all ages and net-worth’s.

My conclusions are that “younger” people are lacking experience and knowledge about investing plus have little money and are inclined to protect what they have. “Older” folks seem to be concerned with their financial needs for health care or motivated to make sure they leave an inheritance for the kids.

It seems logical that persons with “lower” net-worth are concerned with keeping what they have saved and would naturally be loss averse. Yet the “wealthy” also seem loss averse....why? They should be able to be more able to absorb loss in an effort for larger gains? Right?



My hypothesis, is that “wealth” is a relative term. Do the wealthy feel rich? Or do they consider themselves to be “comfortable,” “lucky,” or “ok for now but it could all be gone?” And then of course, how much is enough?

So how do you measure your financial progress?

- The value of your account this Friday verses last week Friday?
- One monthly statement to the next?
- The stock market high two months ago versus the value today?
- What about value at the beginning of the year verses now?
- Or December 31 to December 31?
- Portfolio value 3 years ago? Five years ago? Ten years ago?
- Are you comparing your investment portfolio to the performance of an index like the Dow or the S&P500? But what if your portfolio is not all stocks?
- Are your returns in line with what is needed in your financial plan?

Consider this --- How often does your account value actually go up verses down? Assume your portfolio is “moderate” and consists of 60% growth and 40% defensive assets.(1) Over the past fifty-six years, if you check values every month, versus every three months; six months; or once per year (2) you see that value go down, recovering or up:

	<u>Monthly</u>	<u>Quarterly</u>	<u>Semi-Ann'l</u>	<u>Annual</u>
Falling	33%	26%	24%	16%
Recovering	25%	15%	6%	2%
Rising	42%	59%	70%	82%

What does this mean?

If your focus is the monthly statement, one-third (33%) of the time it is down from last month. A quarter of the time, the value is going back after having gone down the previous month. Forty-two percent of the time you are happy because the value is up from the previous month.

If your expectation is that the value increases every month, you will be frustrated over half (33% + 25%) the time and are probably going to fire your advisor.

If your expectation is to make money over a six - or twelve-month period, you will be happy 70% to 80% of the time. I am not suggesting you only look at your statements annually ... but what are your expectations? Short-term gratification or long-term success?

If you do really look at statements every month, during the forty-five years from January 1972 to December 2017 (a total of 540 months) you will have counted 80 declines of one month or longer. Five of the declines were more than 10%. This means that 75 of the 80 declines were less than 10%. Two-thirds of the declines---or 50 of the 80 were of one month or less. Big declines happen but not often. (3)

The take away here ... last week on October 10 & 11 of 2018 when the S&P was down 7% or this February when it was down 10% are NORMAL ... this STUFF HAPPENS.

FYI: As of Friday, October 12, 2018 the S&P 500 closed at 2,769: (4)

- On 12/31/2017 the S&P closed at 2,673....so the S&P is up 3.6% YTD.
- On 10/11/2013 the S&P closed at 1,703.... Up 63% over five years.

A 7% decline over two days is merely market fluctuation. You have the option of getting excited or not.

What is your plan? When do you make changes? What constitutes the reason for changes? What is your process for making changes?

Please call me if you have questions, concerns, or just wanna talk...

1) *The hypothetical 60% growth and 40% defensive portfolio is made up of 5% Treasury Bills and 35% Barclays Aggregate Bond Index; 40% S&P 500 and 20% MSCI EFA.*

2) https://riskprofiling.com/WWW_RISKP/media/RiskProfiling/Downloads/Risk_Return_Summary.pdf

3) *Past performance in neither an indication nor a guarantee of future results.*

4) *The S&P 500 is an index of five hundred U.S. companies and is a measure of stock market movement. You cannot invest directly in the index.*



Fred Wollman earned his Certified Financial Planner “CFP®” professional credential in 1984 and the Master Planner Advanced Studies “MPAS®” designation in 2015. He holds securities registrations 7, 63 and 24. He is registered in California, Arizona, South Dakota, Colorado, Minnesota, Texas, Virginia, Washington, Oregon, Florida, Tennessee and Pennsylvania in addition to holding a California life and disability insurance license. From 1987 through 1990 Fred taught the CFP classes to aspiring financial professionals at San Diego State University.

He is on the board of the Valley Center Trails Association, ECOLife Conservation, and the Hidden Valley Kiwanis Club.

Fred and his wife of thirty-six years, Kathy, live in Valley Center, CA with two cats, a dog and two horses.

Fred spends his down time relaxing with yoga, tai chi, riding horses and when he can get really away, backpacking the Anza Borrego Desert, Mt. San Jacinto or the California Sierra Nevada Mountains .

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