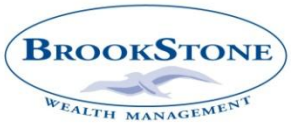
The Dow is at an all time high! Now what?



By Joshua Farmer

The market upswing during the second half of 2012 and so far into 2013 has led the Dow Jones Industrial Average to close as of March 12, 2013 at 14,450.06 some 300 plus points above its 2007 all time highs. This good news for the stock market has led to some questions from wary investors, in particular, what to do now.

In recent conversations with other financial advisors both in person and via twitter, I've have noticed a markedly different mindset of the mom and pop investor that I think shows a shift from the past, and that some may in fact have learned from past mistakes. Not only are we receiving very few incoming calls about wanting to do "something" because of this latest market highs, but the few calls we are getting are clients asking if it's time to move to cash because of the recent highs. Now to those out there reading, this seems like an absolutely logical action. Isn't that what has been preached to us for years, buy low and sell high. My answer to that is yes but the emotions of fear and greed made it very difficult for the mom and pop investor to follow this mantra. See the clients looking to move all of their money into indulge in the technology bubble in the late ninety's, the investor who wanted to take their savings and "flip houses" for the easy money during the real estate bubble, or the investor who moved everything to cash in 2008-2009. Fear and greed have driven the actions of the mom and pop investor of the past. Just ask Carl Richards at www.behaviorgap.com, he's written an entire book and started an art career over this "Behavior Gap" facing investors.

So now that the market has had this nice little run to start 2013, what questions should you be asking your advisor? I think one of the most important, is have we rebalanced lately? I contend that is one of the greatest values your advisor may bring to the table. You and your advisor have worked together to carefully craft the correct asset allocation mix for your given risk tolerance, savings habits, and goals and one of the greatest values your advisor provides is the periodic rebalancing of your assets to help you stay on path.

How does this work? Let's just say that you and your advisor decide that an allocation of 60% Equities, 35% Bonds and 5% cash is correct for your goals. In January of last year we had exactly

$100,000 of investments, we would have $60,000 in Equities, $35,000 in Bonds, and $5,000 in Cash. Over the last year, your stock portfolio has returned 20%, your bond portfolio lost 5% and your cash position has returned zero, look what has happened to your overall allocation. You now have $72,000 in stocks, $33,250 in Bonds and $5000 in cash. Put another way your $110,250 dollar portfolio is now made up of 65% Stocks, 30% Bonds, and 5% Cash. By rebalancing your portfolio back to its planned 60/35/5 allocation we are in fact selling off some of our better performing assets and purchasing the lower performing assets decreasing our exposure to the next big downturn in the stock market, which will come eventually. Now your advisor will also be able to help navigate the most tax appropriate strategy for this rebalance as well, given the types of accounts you may have. *The above is a hypothetical example and is not representative of any specific investment.

For those of out there who have been sitting on the investment sideline for the last few years waiting for the "right" time to get back into the market and may see these recent headlines as a time to jump in. Please see the headlines that look something like "stocks at all time highs" and please read "stocks at all time most expensive prices". You more than most, should seek out the guidance of a qualified and trusted advisor to help you understand the goals you have for your money and help you control the allocation and behavior necessary to accomplish those goals.

Even though rebalancing doesn't guarantee better results, rebalancing on a periodic basis allows us to maintain focus, remaining disciplined and resolute toward our own individual goals. Yes, the stock market may continue its upward trend for months or even years to come. I for one am not in the business of speculating the daily, weekly or monthly movements of the markets, and neither should you or your advisor.

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