Is it time to revisit your investment strategies?

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One of the prognostications for the New Year that has certainly been true so far this year is that the stock market would continue to see volatility throughout the year. I've often defined volatility in simple terms as the number of days in a month when the Dow Jones Industrial Average changes, up or down, by more than 100 points; the more days, the more volatile the market. Volatility is disconcerting for everyone. But it is especially worrisome to those whose retirement savings are invested in the market. Whether you are saving for retirement or have already retired, seeing the value of your savings go down can be troubling to say the least.

There are several things to consider when addressing this situation:

1. The longer your time horizon, the less you should concern yourself with daily volatility. However, no matter what your time horizon, if volatility appears to be headed for a major correction, even those with longer time frames should revisit their investment strategies.

2. A well-constructed investment structure will employ several different strategies designed to mitigate risk by using some asset classes that will increase at a time when others are falling. Alternatively, some strategies have a tactical overlay, which converts to cash if conditions warrant. We like the latter plan and use this strategy with our clients.
3. While the investment you have may be consistent with your risk tolerance, the amount of savings you have invested at risk may not be consistent with your risk capacity. The recent volatility is a reminder that buffering risk investments with other asset classes not subject to market ups and downs is always smart planning.

Many market gurus are forecasting that returns may well decrease over the next few years due to global economic issues and the consequences of an aging society worldwide. If market returns are going to be more modest, it means that the difference between returns on risk investments and the returns on low risk investments may very well shrink. That raises the question as to the wisdom of investing disproportionately in risk assets when the margin over assets not affected by market fluctuations may not be that great. Certainly a point to consider especially for those with limited risk tolerance. If you would like to discuss your individual situation and go over options that best suit your needs, we are a mere phone call away.

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