YOUR FINANCIAL FUTURE

Your Guide to Life Planning

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Keep Emotions at Bay With an Investment Policy Statement

Chances are your investment strategy calls for some portion of your portfolio to be invested in stocks to help you reach your long-term goals.[1] But when the stock market turns choppy -- as it most certainly will from time to time -- try not to let your emotions get in the way of achieving your objectives. Keep in mind that a loss in stock market value may only matter if you need access to that money within two years or less. Furthermore, history shows that the market has typically made up its losses fairly quickly, although past performance is no guarantee of future results.

If you are skittish about the markets and what might lie ahead, there are steps you can take to help you stick to your long-term strategy, some of which may best be explored and implemented with the help of a trusted financial advisor.

Put an Investment Policy in Place

Working with an advisor, you can develop a customized investment policy statement to help you pursue your short- and long-term financial goals -- throughout all economic cycles. A typical policy statement might be based on five key factors:

1. The time frames for your various financial goals (e.g., short-, medium, long).
2. Your need for liquidity in your portfolio.
3. Your personal tax situation.
4. The legal structure of the investment vehicle, such as an IRA or trust account.
5. Other special factors affecting your personal situation, such as a preference for socially responsible investing, or if you have a special needs child.

Once you know how much risk you can accept, you can create an asset allocation target and a policy statement designed specifically for you. When properly structured, your investment policy statement helps to protect you against market downturns. For example, say you may have the risk tolerance to accept a one-year decline of more than 20% on some of your long-term money, but if part of your portfolio is earmarked to pay for your daughter's wedding in 18 months, your policy would not allow that portion to be exposed to extreme market volatility.

Don't Panic

As tempting as it may be to abandon your investment policy, such a shortsighted move is likely to cause you far more harm than good. Emotional decisions are rarely the best financial decisions for your portfolio. Instead of overreacting to volatile market conditions, try to stick with your strategy and avoid a costly disruption in the balance of your investments.

As a matter of fact, you may consider using market declines as opportunities to add to your equity holdings. During times of economic downturn, stocks are often priced below market value, which means it may be a good time to "bargain shop," as long as doing so fits within the parameters of your investment policy statement.

In times of market stress, plan to revisit your investment policy with your financial advisor, and remind yourself why you set it up in the first place. If nothing has changed in your life, you probably shouldn't change your strategy. The bottom line is that only personal factors -- not the current state of the economy and/or financial markets -- should drive your investment decisions.

[1] *Investing in stocks involves risks, including loss of principal.*

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