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Taking Stock

Expect change in market & your goals

By Charles L. Failla, CFP®

Q. With the recent market pull back I was wondering what changes I should be considering for my investment portfolio.

A. It is worth noting that I wrote two articles last year around the time of significant moves in the stock market. The first was when the Dow was at 14,000 and the other was at Dow 16,000. Of course, since then, the Dow proceeded to hit yet another all-time high above 17,000 just last month. Today, just a few weeks later, it is back closer to 16,000.

For me and many other professional investors, this is not a big surprise. In fact, it would be much more surprising to me if the Dow did not pull back after so many "new highs" in such a short period of time.

In my "Dow 16,000" article, which was about yet another market high, I stole a quote from Yogi Berra: It's déjà vu all over again.

This recent market pull back can be encapsulated well by a quote from the French novelist who said: The more things change, the more they are the same.

Specifically, the investment approach that I use with clients is grounded in the belief that markets, especially the stock market, are always unpredictable in the short term, but, can be more predictable over the long term. With that in mind, I tend to not make any wholesale changes to portfolios based on short term market moves. Instead I focus on being sure a portfolio it well positioned based on the time horizon for when those funds are needed, as well as a clients' personal risk tolerance.

The key is to take the time to quantify your financial goals by determining two data points for each goal:

1. How much money will be needed?
2. When will that money be needed?

With this information, you can begin to allocate your investment dollars based on when those funds will be needed. Then, once you have this planning work done, you can begin to decide on the asset allocation and the level of risk and return potential that will make the most sense.

For example, let's say in this case the primary goal is retirement income supplementation. For a client in their 60s, I would generally recommend they look at the amount of money they need to supplement their income in 1-5 years, 5-10 years and 10 years plus. We should then look at all three of these "buckets" as separate goals and then construct the investment portfolio based on the time horizons. Specifically, the 1-5 year "bucket" would be a portfolio made up of the most conservative types of investment. The 10 year plus "bucket" would have the more aggressive investments and the 5-10 year "bucket" would be somewhere in between.

Then, on at least an annual basis, it will be important to reexamine these assumptions and readjust the portfolios.

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At the end of the day, what this is designed to accomplish is a level of predictability for the funds needed soonest while giving the funds needed last an opportunity to grow.

So, rather than making decisions based on what the market did last week, yesterday or today, I recommend this approach of compartmentalizing your funds based on time horizons. Then you can choose conservative or more aggressive investments based on the time horizon for each bucket.

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