



SMART INSIGHTS FROM FINANCIAL PROFESSIONALS

Don't Be Paralyzed by Uncertainty



You definitely need a plan, because what's ahead could be scarier than what's behind us.

By Reid Johnson, Investment Adviser
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Investors are understandably anxious these days about the level of volatility in the market and the impact it may have on their retirement savings.

Unfortunately, their nervousness is keeping many from doing the kind of planning that could help them ride out future storms. Uncertainty has them paralyzed. Or they're tempted to abandon the plan they have, take their money out of the market and keep it in cash to limit their losses.

But proceeding without a plan may be the biggest mistake an investor can make in challenging times. Or any time, for that matter. Because what's ahead of us globally, nationally and individually could very well be even scarier than what's behind us. It might be an election, a war or an economic collapse in another country. Or a chronic illness, accident or some other personal issue that no one could predict.

When people don't have a financial plan or aren't sticking to their plan, this is what I tell them:

MANY RETIREMENT SAVERS AREN'T AS GOOD AT THIS INVESTING THING AS THEY THINK THEY ARE.

There's an old saying that definitely applies to financial planning: Smooth seas don't make good sailors. The market was doing so well for so long — with a bull run that lasted more than a decade — and most do-it-yourselfers did fine on their own. But when seas get rough, the ride isn't so pleasant.

Now is not the time to go it alone or try to do it yourself. It helps to have an expert do the navigating. A financial

planner can help plot a course that gets you to and through retirement, even when times are tough.

HAVING A COLLECTION OF INVESTMENTS IS NOT THE SAME AS HAVING A PLAN.

A lot of people — even some who are working with a financial professional — base their investment choices on three basic questions:

- What's your risk tolerance?
- What's your time horizon?
- And what's the rate of return you can expect on particular investments?

They build a portfolio around those answers, then hit retirement and find they have all this “stuff” but no plan. They don't know how they'll get income from their investments, or what they'll do if they're forced to sell at a loss in a down market. They don't know how they'll be taxed when they take distributions from their traditional IRA or 401(k). They don't know what inflation will do to their buying power at 80 if they're playing it safe at 60 with most of their money in bonds or cash. They don't know if their portfolio is properly diversified — between asset categories and within them.

IT'S NEVER TOO LATE TO GET A PLAN.

The earlier you start planning for your goals, the better. A good financial plan can help you reach important milestones (buying a house, for example, or putting your kids through college) long before you reach retirement. But even if you're near or in retirement, you still can benefit from mapping out strategies with a professional.

An adviser may be able to help maximize what you've saved and hope to save. You also can discuss the best options for claiming Social Security or an employee pension, if you have one. You can look at establishing other income streams if you need them. Plus, you may discover new ways to protect yourself and your loved ones against unexpected expenses.

IF YOU HAVE A PLAN, TEST IT.

The historic bull run, from 2009 to 2020, set impractical expectations for portfolios going forward. It was a great time to be in the market, and some investors took advantage of the “easy” returns. But it is unrealistic to believe the markets could perform that way indefinitely. Stocks go up and down. However, if you have a plan and you stress-test it to see what will happen in various scenarios, you'll be far less likely to get caught off-guard. You'll understand the tools inside the plan, and what they're supposed to do in different environments.

A stress test uses a computer program to simulate how your portfolio would fare based on many things that could happen in the market. You plug your financial information into the program, and it will show where your portfolio is strong — and where it is weak. You can see how well you would do in a good market, and how poorly your investments would perform in a down market. When you input information, you can adjust for life expectancy, various inflation scenarios, and how much you expect to spend in retirement, all of which affect whether your money will last.

A financial professional should be able to run a stress test for you.

If you test your current plan and it isn't getting you where you want to be, improve it. Review it regularly to make sure it's still working, but don't give up on planning completely. Even the best plans need adjusting, based on changes in goals, objectives and other factors, and without emotional overreactions.

GET YOUR OWN PLAN.

Everybody is different. Lumping investors into just three categories — conservative, moderate or aggressive — is dangerous, and settling for a cookie-cutter plan is ridiculous. Life expectancies are different. Tax situations are different. Maybe there's spousal income to consider. Maybe there's a special needs child. I could go on. A plan should be tailor-made.

If you're following a generic plan, a plan that isn't based on you, and suddenly we're in an environment like the one we're in right now, you may find yourself in trouble. That's when some people think about pulling everything out of the market and going to cash even though they really need to keep growing their money to fulfill their future income needs. Others risk far more than they should, even though they already have plenty of money saved.

Go ahead and listen to the financial news. Talk to your co-workers and neighbors about your wins and losses, if you must. When you feel your nerves getting the better of you, though, stop and ask yourself: Do I have a plan that I've worked on with a qualified professional, and am I on target with that plan?

If your answer is yes, you'll be far better prepared to weather whatever is coming next.

Kim Franke-Folstad contributed to this article.