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Cash Still on the Sideline? How to Restore Your Financial Plan

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Over the last few years we, as investors, have experienced some of the most unruly market conditions in history—we saw portfolio values fall and rise like ocean tides. To further compound the market volatility, we are constantly bombarded with pessimistic news designed to play on our emotions. Candidly, it is extremely difficult to remain focused on our goals when faced with incessant bad news and extreme market fluctuations on a daily basis.

Many have abandoned their financial plans and moved their assets to cash. It is completely understandable wanting to protect those assets. However, by taking this action, investors have reduced market risk but at the same time subjected themselves to many other risks that are commonly overlooked, such as longevity risk and purchasing power risk. By doing so, what future sacrifices will have to be made: Fewer trips to see the grandchildren? Moving in with our children?

Now that we are on our way to recovery, what are the steps to mending your financial plan? The following ideas are very simple; in fact, you are likely familiar with each idea. But sometimes it is necessary to go back to basics to ensure that you have a solid foundation upon which to build your wealth.

Assess Your Unique Risks

Our attitudes about risk change over time. As we move through life, we have a propensity to become more conservative. When we endure market corrections, we naturally become more concerned about protecting our assets and, depending on the severity of the correction, either reduce equity exposure or move to cash. We abandon our long-term view in favor of short-term circumstances. Regardless of your recent investment decisions, it's a good idea to sit down with your financial advisor and reassess how you view risk. This helps to solidify communications between you and your financial advisor and better align your investment strategy with your risk tolerance.

Select the Proper Strategies

Once you have a better understanding of your risk tolerance and time horizon, there are a number of investment options available to discuss with your financial advisor. The main goal is to adopt a well-diversified, properly allocated portfolio. The portfolio may have a mixture of non-correlated asset classes such as fixed income, equities, real estate and commodities. The allocation to each asset class should be commensurate with your risk tolerance. Risk tolerances can range from a conservative allocation to an aggressive allocation. These portfolios range from mostly fixed income, ultra conservative to all equity, aggressive growth allocations and should be rebalanced periodically to ensure the original target allocations are maintained.

Implement Your Solutions

Once you and your financial advisor have reassessed your investment portfolio, there are two ways to implement: “all at once” or dollar-cost averaging. The “all at once” option invests all funds immediately. While this may be appropriate for some investors, others may like to ease back into the market over time. After all, these funds represent nest eggs and college educations. For those of us who fall into this category, dollar-cost averaging is often a more attractive choice.

Dollar-cost averaging allows a periodic, predetermined investment amount over a given time period; the time period could be three months to a year or longer. The chosen time horizon should be discussed with your financial advisor. Many investors have found this to be a great alternative to just jumping back into the market, especially for those who have moved to an all-cash position.

It is essential that you have a clear and thorough understanding of your risk tolerance and how your portfolio is constructed. Take this opportunity to regain control of your financial future and your ability to meet your goals. Capitalize on your financial advisor’s expertise—contact us today.

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Asset allocation/diversification of your overall investment portfolio does not assure a profit or protect against a loss in declining markets.

Dollar-cost averaging does not assure a profit nor protect against a loss in declining markets. An investor should be prepared to continue the program of investing at regular intervals. An investor should also consider his financial ability to continue his purchases through periods of lower price levels in order to fully utilize a dollar-cost averaging program.