Organizing Your Financial Life

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After being approached in October 2018 to write an article about the markets, I reflected on the best way to contextualize the rapid changes that were occurring. In the midst of a stock market plunge, it made sense to talk about resurgent volatility, but that alone would not do justice to the complexity of comprehensive financial planning.

One month of turbulence does not necessarily foreshadow a market crash or economic recession, but it should not be ignored either. Many dramatic market downturns came as a complete surprise to investors: the crash of 1929, Black Monday in 1987, the "Dot Com" bubble of the 1990s, and the housing bubble of the 2000s. Recent markets serve as a reminder that pullbacks can take shape when we least expect them. With that in mind, I have compiled a short to-do list to help organize your financial life in preparation for the unexpected.

Create a Financial Plan

Whether you are nearing retirement or are already in retirement, it is not too late to assess your situation. First, review your current assets and liabilities. Second, consider your inflows and outflows, both discretionary and mandatory. Retirement income may include a pension or company savings plan, Social Security, and portfolio income. Then estimate your expenses – everyday costs, taxes, mortgages, car purchases or leases, and less frequent expenditures such as vacations or weddings. Once you have a good idea of your cash flows, stochastic modeling software can run thousands of scenarios to test your financial situation. Everything from rising inflation to multiple market crashes should be factored in. Although you can create your own plan with reputable financial programs, complexities are typically better modeled by a financial advisor who is a CERTIFIED FINANCIAL PLANNER™.

Determine Your Needs

The goal of a financial plan should be the identification of your financial needs. By running numerous scenarios, you can get a good idea of how much you are able to spend and what asset level can realistically be maintained. Your financial planning results, coupled with your feelings about volatility, will help you construct a risk profile that determines how conservative or aggressive your portfolio needs to be.

Understand What You Own

In rare instances, clients come to us with a blank slate, but if you already have investments (i.e. your 401(k) or IRA), do you know what you own? Whether you invest in individual stocks and bonds, mutual funds, or exchange traded funds (ETF), there is some level of risk involved. They key to constructing a robust portfolio understands what types of risk you are exposed to, and what impact they can have. Interest rate risk, credit risk, liquidity risk, and concentration risk are just a few. It is easy to ignore risk during a bull market, but when pullbacks occur, those risks can become painfully clear. The joy of participating when stock prices are going up can become disastrous for investors, particularly retirees, when their portfolio goes out with the tide and they don't have the time horizon to build it back up.

Separate Thinking From Feeling

A suitable portfolio seeks to balance your risk tolerance with your objectives, and combined with your financial plan, should withstand unpredictable market conditions. Sounds simple, right? I can't tell you how many investors start off on the right track, only to deviate when market returns seem too good to pass up or too bad to participate in. Feelings can easily derail an otherwise sound financial plan. There are times when a good advisor is as much a referee for your feelings as they are a financial quarterback for your plan.

Maintain and Adjust

Over time, your life will change. Maybe you are welcoming a new grandchild, your home needs unexpected repairs, or financial markets take a sudden turn. Financial plans have to adapt with life's blessings and challenges, so it is important to review and adjust both your portfolio and comprehensive financial plan on a regular basis. Quarterly or semi-annual rebalancing of your allocation, as well as annual inspection of your cash flows, are essential to achieving your objectives. If you have a financial advisor, make sure they are routinely keeping your stock-to-bond ratio in check and reassessing your plan's viability.

To fully explore your portfolio and custom financial plan, I highly recommend consulting with a professional financial advisor. Reputable advisors will provide a free analysis of your portfolio and objectives, even if you ultimately decide not to open an account. If you already retain an advisor, be sure to ask them if they are routinely rebalancing your accounts and running updated iterations of your financial plan.

Prepare Instead of Panic

Market volatility does not have to be synonymous with personal uncertainty. Even though the market veers up or down when we least expect it, a carefully constructed investment strategy can provide long-term stability while allowing for tactical adjustments during unexpected events. Recent moves in the stock and bond markets are a great reminder to prepare your financial plan, understand the risks of your investment strategy, and remove emotion from your decision-making process. It is easy to brag about your portfolio when markets are good, but the real measure of success is not panicking when markets are bad.

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