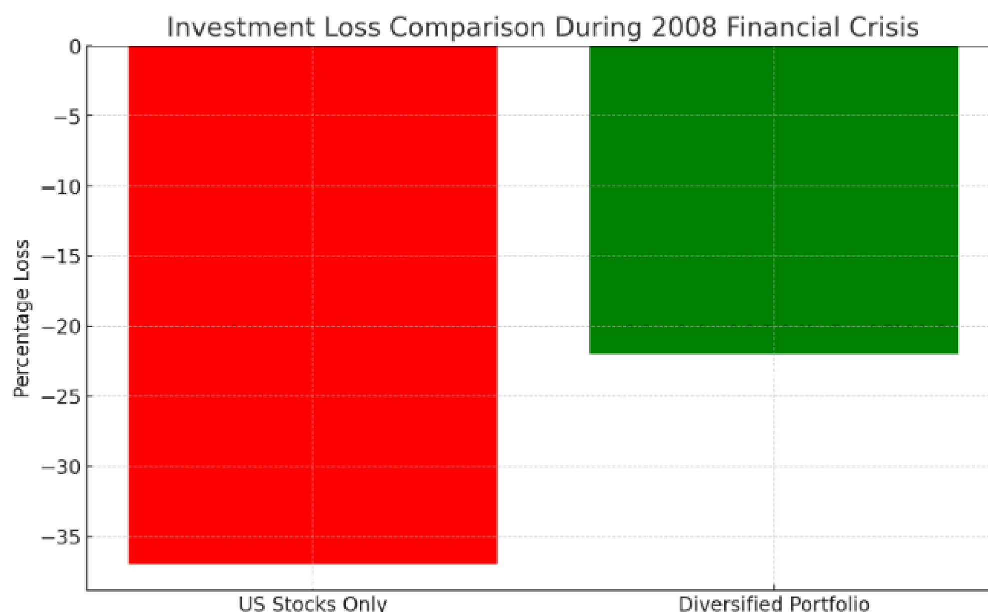
Bull, Bear, and Beyond: Investing in an Unpredictable Environment

If you have seen any news broadcast or accessed the internet anytime over the last 5 years, you probably understand that uncertainty is inevitable, not only in daily events but especially in the world of investing. Whether it's caused by economic downturns, political upheavals, viruses with incredibly high survival rates or everyday market fluctuations, uncertainty can create anxiety and stress for investors who want to preserve their wealth and achieve their financial goals.

The good news is that uncertainty doesn't have to wreak havoc on your portfolio, or your composure. After serving far more years than I like to admit as a financial advisor and portfolio manager, there are several key strategies that successful investors have used to maintain confidence. Presented here in no particular order:

Strategy 1: Diversify your portfolio

One of the most effective ways to reduce the impact of uncertainty on your investments is to diversify your portfolio, using different asset classes, sectors, regions, and styles. Diversification can help you balance risk and return, as well as smooth out the volatility of your returns over time. By having a mix of stocks, bonds, cash, and possibly alternative investments, you can **reduce your exposure to any single source of uncertainty** and potentially benefit from the performance of different assets in different market conditions. For instance, if you had invested only in US stocks during the 2008 financial crisis, you would have suffered a 37% loss[1], but if you had diversified your portfolio with some international stocks, bonds, and gold, you would have reduced your loss to 23%[i].



[1] S&P 500 Historical Prices by Year

Strategy 2: Focus on the long term

Another important strategy for navigating uncertainty is to focus on the long term and avoid reacting to short-term noise and emotions. Uncertainty can trigger fear and panic, which can lead to impulsive and irrational decisions that can harm your portfolio. Instead of trying to time the market (I have yet to see someone "know" the bottom of a downtrend and have the stomach to buy) or chase the latest trends, you should stick to your long-term investment plan and goals, and review them periodically with your financial advisor. **By focusing on the long term, you can avoid overreacting to temporary setbacks** and potentially take advantage of the power of compounding and the historical upward trend of the market.

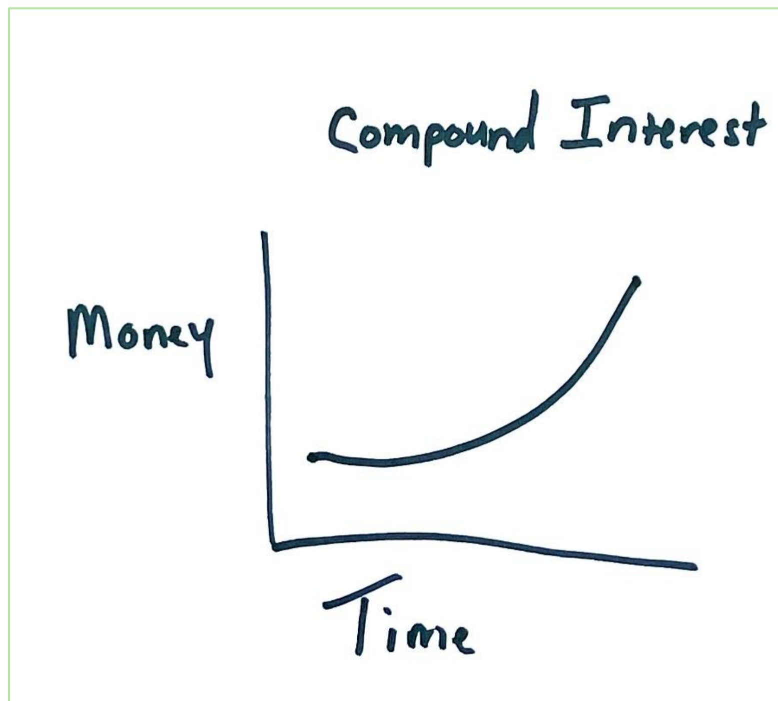


Figure 1: I'm lefthanded but you get the idea...

Strategy 3: Seek professional advice

Unlike when someone suggests you seek professional *help*, the third strategy for navigating uncertainty is to seek professional *advice* from a qualified and trusted financial advisor.

I assure you this isn't a shameless plug because I happen to be a financial advisor, I just know from experience that someone in my role can help you create a personalized and comprehensive investment plan that is appropriate to your risk tolerance, time horizon, and most importantly **your personal objectives**. A financial advisor can also provide you with objective and unbiased guidance, as well as emotional support, during times of uncertainty and volatility.

By working with a financial advisor, you can **gain confidence** in your investment decisions and help stay on track to achieve your financial goals.

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Investing in commodities entails significant risks. Commodity prices may be affected by a variety of factors at any time, including but not limited to, (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in commodities and related contracts, (vi) pestilence, technological change and weather, and (vii) the price volatility of a commodity. In addition, the commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention.

Because of their narrow focus, sector investments tend to be more volatile than investments that diversify across many sectors and companies.

Diversification does not guarantee a profit or protect against loss in a declining financial market.

Information contained herein has been obtained from sources considered to be reliable, but we do not guarantee their accuracy or completeness.

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[i] Assuming a diversified portfolio consisting of:

- **U.S. Equities**: 40%
- **International Equities**: 20%
- **Bonds**: 30%
- **Gold**: 10%

2008:

US stocks (S&P 500) returned -36.55% and bonds (Barclays US Aggregate) returned 5.24%
Aggregate Bond Index vs. Stock Index 1980-2021

International equities (MSCI EAFE index) returned -50.35%
iShares MSCI EAFE Intl Idx Inv A (MDIIX) Performance History

Gold returned 4.96%
Gold Chart and Current Gold Price

The portfolio's overall return can be calculated as a weighted average of the individual asset class returns:

Portfolio Return = (0.4 times {U.S. Equities Return}) + (0.2 times {International Equities Return}) + (0.3 times {Bonds Return}) + (0.1 times {Gold Return})

Substituting the 2008 returns:

Portfolio Return = (0.4 times -36.55%) + (0.2 times -50.35%) + (0.3 times 5.24%) + (0.1 times 4.96%)

Calculating the weighted average:

Portfolio Return = -14.62% + -10.07% + 1.57% + 0.50% = -22.62%

Therefore, this diversified portfolio would have returned approximately **-23%** in 2008.