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Putting It In Perspective

By admin

The investment markets have been very "volatile" since the start of 2022. Volatile is just financial industry jargon that means markets move up and down. For retail investors, the biggest concern is when markets move down. Retail investors love when markets go up and usually cringe or flinch when they go down.

It is a simple case of wanting to have the cake and eat it too. This is the same as saying you want to get into physical shape without exercising. It is precisely this volatility and uncertainty that makes it possible to build portfolio assets over time and achieve financial independence or a comfortable retirement - by exchanging income earned from employment with income earned from pensions and various types of investments.

Investment markets have been volatile and have dropped into correction territory since the start of 2022. Ongoing geopolitical events, including the Russia-Ukraine war and rising inflation, have caused turmoil in the markets and have investors questioning their financial outlook amid murky market conditions.

Let’s examine the current thinking among some retail investors. A client calls his advisor and says that his investments are down thousands of dollars since the beginning of the year. Depending on your own financial situation, this may strike you as a lot of money.

First thing to consider is IF this money was needed today, for groceries or a house renovation. The answer was "No", of course not, but the investor is still worried about running out of money as he is only a few years from retirement.

The next thing to do is review the investor’s overall level of investment assets to determine what amount the recent decline represented of his total account value. The answer: a few percentage points. **The lesson here is that the larger your portfolio grows over time, the greater the need to adjust how you assess investment performance.**

Using percentages makes it easier to objectively assess the current state of one’s financial affairs. For example, it is one thing to be worried if the investment loss was deducted from a portfolio valued at $100,000 or less, and quite another if the portfolio is around $1 million.

We then reviewed his investment profile **and** how the portfolio was constructed to factor in changing economic conditions such as recessions and market corrections. Many investors wish to minimize the potential of portfolio losses, especially as the size of the portfolio grows, and the closer they get to their retirement age. Others are willing to have a wider range of volatility to get the higher returns that have historically been achieved through buying and holding investments over time. Investors seeking long term gains recognize that historically, market corrections are temporary with investment markets tending to trend upwards over long periods of time.

The goal is to have a properly managed retirement portfolio, where cash is available to cover annual lifestyle expenses, allowing the rest of the portfolio to grow over time. There have always been ups and downs in the past and there will always be ups and downs in the future – this only ever becomes a problem when someone plans to spend all their money at once.

The role of your financial advisor is to work with you on assessing your risk tolerance, time horizon, savings rate (and so on) to help you implement an investment strategy that will help you remain confident in the face of any investment and economic storms as you build your wealth over time.

The financial media’s role is to continually remind you "the sky is falling", as the old saying goes, and to keep you on edge. That is how they sell papers. The more that investors listen to the day-to-day "media noise", instead of the ideas that really drive financial success, the greater they will feel pressured to "do something" to relieve the emotional stress that usually comes hand-in-hand with market volatility. **Our advice is to resist the urge to give in to short-term thinking.**

Call us today to review your investment strategy [1] and see if you are still on track to achieve your investment goals.

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