



RECOVERING FROM THE PAST: IS MY PLAN ON TRACK FOR THE FUTURE?

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Congratulations! According to those supposedly “in the know” the recession is over, and we have all officially survived the worst economic downturn this country has experienced in decades. The economy is improving and the equity markets have rallied nicely off the bottoms they hit in March of 2009, but they are still well off their 2007 highs. Unfortunately, a continued smooth recovery is far from certain. The unemployment rate hovers over 9% (this doesn't

include “underemployed” workers), many cities and states struggle with massive revenue shortfalls, and a large percentage of homeowners have lost significant equity in their homes. These concerns, combined with the economic and political issues overseas, make many of our clients ask, “Are things really better?” As an advisor, my job is to keep clients focused on the future while learning from the past. How do we do this?

Reassess your goals and timeframe

A good rule of thumb in any business is not to promise anything to your clients unless you're confident that you can deliver it. The investment business is certainly no exception. We're all familiar with the disclosure “past performance in no way guarantees future results.” Unfortunately, I see too many clients that come to me with very aggressive assumptions for how they think the markets will perform. Some have even shown me projections

other advisors have run for them using rates of return far outside of my comfort zone. It is critical to look at each client's goals and reassess the investment allocation to ensure it is still appropriate during what can only be referred to as "the new normal" we deal with today. We can do that by revisiting the allocation and "stress testing" it to see how likely it is that clients can still meet their goals. The "stress test" typically involves running a probability calculation assuming random levels of risk and return for each asset class over time. This is by no means a perfect science, but it can help keep a client's allocation on track if done regularly. At that point, we can have meaningful discussions about lowering the retirement income assumption, working longer, or adjusting any gifting plans in place. Using a reasonable expectation of future returns, rather than an inflated number put forth to make the client happy, is a vital part of portfolio construction.

Implementing a sound asset allocation

As a fiduciary for our clients, we're required to manage portfolios using investment vehicles that are not just "suitable" but are in the best interests of our clients. This mandate carries over to each client's overall asset allocation. Our role, even prior to the market correction, was always to allocate clients' assets in a mix of investments that fits their individual needs. It is important to look at your goals for investing (retirement, college planning, inheritance, etc.) and put together a portfolio that makes sense. It is common among investors to watch the daily gyrations in the markets and want to see their portfolio rebalanced "on a dime" to keep up. This is counterproductive and could certainly lead to poor returns down the line. A better plan is to work with an advisor to create a mix that is appropriate. The advisor should have sound reasoning as to why they are recommending a



certain target allocation, and they should be able to articulate the loss disciplines and principal preservation strategies they employ during times of turmoil.

Coordinate all of your assets

A common mistake among investors is to not coordinate the allocation of their portfolios. We work with clients to ensure that any accounts we don't manage (i.e., their company retirement plans) are allocated properly. Work with your advisor to get help with the allocations of any non-managed accounts. Ask about any other options (long-term care insurance, annuities, etc.) that could be integrated as part of your overall plan. The concept of "coordination" can also relate to how the assets are titled. Should your investment portfolio be held in a Trust? Who should be listed as the beneficiary on any IRA or retirement plans you own? These decisions can have a big impact on whether or not your overall estate plan functions as it is intended.

Choosing an advisor

Weeding through the myriad of advisors can be daunting. Here are a few questions to ask during the interview stage:

- Can I see your historical performance?

- How would my allocation be structured?
- Who reviews my financial plan, and how often?
- Tell me about your typical client.

Take your time!

Selection of an investment advisor and financial planner should not be made on a whim. Take the time to ask the tough questions and really get a good feel for who best fits your needs. Consider that you and your family will more than likely be working with this firm for decades to come. Making an educated, well-informed decision will help you get on track toward reaching your goals.



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