COLUMN

Is your portfolio running toward something ... or from something?

By Joseph Matthews

Does your portfolio reflect your tolerance for risk, investment time horizon and need for liquidity? Or does it reflect the past investment experiences, good or bad, of you and others?

As investors, we are all susceptible to letting emotions enter into our decision-making process. Currently many investors find themselves holding an overweight position in cash and bonds while underweight domestic and international equities and alternative investments. This is based in large part on how they feel about these types of investments. These strategies are certainly influenced by the apathy, reluctance and excitement caused by anchoring to past investment experiences — without regard for what the future may hold.

The U.S. bond market may be the poster boy for fostering this type of behavior. With the exception of three years of slightly negative returns over the last 3-plus decades, bonds — as measured by the Barclays U.S. Aggregate Bond Index — in many cases, have been an absolute joy to own relative to stocks and many alternatives. Bond investors didn't have the lost decade of near zero percent annual returns on stocks after the Internet bubble burst in 2000 nor experienced the incredible pain stock investors felt during the financial crisis of 2008.

Bond investors also haven't experienced the seemingly constant barrage of political and media attacks faced by managers of alternative investments following a number of highly publicized and specialized fund implosions.

And cash, well it's cash. Its value never gets below your purchase price — and boy is that comforting in times of market duress. Unfortunately, many investors overlook the fact that times of extreme market duress are less frequent than they realize.

Stocks, as measured by the Standard & Poor's 500 index, experienced losses of 20 percent or greater only six times in the last 87 years!

In addition, although money market accounts are appropriate investments for funding short-term liabilities and unanticipated emergencies, history shows that returns on cash, after taxes and inflation, have generally resulted in a long-term loss of purchasing power.

The broad spectrum of emotions created by our life's experiences and those we become familiar with through acquaintance or the media can often trick our minds. This can lead us to extrapolate unexpected and often misunderstood events into what we believe are long-term or even terminal trends.

Unfortunately, history has shown that this mode of thinking can wreak havoc on portfolio investment results. This, in turn, can negatively impact our retirement as well as philanthropic and legacy goals. In spite of this, for many, portfolios still reflect an emotional response to the financial crisis of 2008.

Even today, seven years later, that emotion is evident in the way stock investors are acting. Remarkably, fearful investors have sold nearly $40 billion of equity mutual funds through May 15. Additionally, according to the AAII Investor Sentiment Survey for the week ending May 20, only 25.2 percent of investors polled are bullish. This is the lowest reading in three years and flies in the face of the improving economic data we continue to see.

It is often when we are running toward a goal — as opposed to away from uncertainty — that we can achieve success at a high level. As we all know, change and the unknown come with anxiety and the need to have courage and faith in our convictions. With U.S. interest rates at generational lows, U.S. equity markets at or near highs and world economies at various stages of economic cycles, now represents a good time to review and potentially restructure your portfolio to allow it to reflect both short- and long-term financial goals.

After all, investment opportunities will continue to march on with or without you.

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