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THE REGISTER CITIZEN

MARKET MATTERS: Embrace the unknown

By Joseph Matthews
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Photo: Hearst Connecticut Media File

Eight Easter Sundays ago, the unthinkable and unpredictable happened to my family. We suffered from a catastrophic house fire that literally left us with just the shirts on our backs. Fortunately, only one of my children suffered from a minor injury and the pets escaped unharmed, as well. Talk about a bad day! Well, since then, we've managed to rebuild our lives and our home. In hindsight, it all seems like it was in a day's work.

History books are littered with events that were virtually unpredictable. As investors, we need to be prepared for these unexpected occurrences.

The first step is through understanding the range of potential outcomes for your portfolio. So what does that mean? Have your financial adviser explain to you what type of returns your portfolio has produced in both good and bad markets. This is accomplished through the calculation of standard deviation. The result of this exercise should show you your downside risk. (No one has ever lost sleep over making too much money.) By gaining an understanding of your portfolio's risk, you can align your holdings with the level of risk you are willing to tolerate. This exercise may help you weather market downturns.

Investing involves taking risks. Many investors unfortunately don't fully understand all of the different risks embodied in the strategies they are deploying. Are you being too conservative? If you are, you might be facing longevity risk right in the face. This is the risk of outliving your money. With life expectancies seemingly getting longer as each day goes by, this is a real risk facing all of us.

Another potential risk to your standard of living in retirement is purchasing power risk. This is the risk of the price of goods and services you consume rising at a faster pace than your income. It's one of those risks that really don't seem like a big deal early on.

As we all know, compounding is one of the wonders of the world. It doesn't paint a pretty picture for the vacations you always wanted or how you envisioned spoiling the grandkids, but the sooner you start putting money away, the more time it has to grow.

Another risk to your retirement savings is being highly concentrated — or falling in love with a few companies, or maybe just one. Investors need to be wary of "having a hunch and buying a bunch"

The solution? Sit down with your adviser and develop a plan based on what you are trying to accomplish. Don't sweat what the talking heads are saying is going to happen in the next 10 minutes, or what your neighbor is doing. Your portfolio should be a direct reflection of your own goals and values. And lastly, make sure you have a side pocket of cash in a money market type of account as a rainy day fund to get yourself through what you never thought could have happened.

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