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MARKET MATTERS: Is there a storm brewing in your portfolio?

By Joseph Matthews

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Wow! What a blizzard we had- single-digit air temperatures, hurricane-force winds and several inches of snow across the state. I don’t know about you, but this storm affected my work and personal plans and created a need to reschedule a few things.

With proper preparation, my work and family were able to weather this storm. At the office, a voice message directed callers to a call center and our team cleared the calendar of short-term matters. At home, we had enough gas for the snowblower, fully charged cellphones and computers, firewood stacked on the back deck, windshield wash and full gas tanks in our cars, among other things as part of our planning.

By being thoughtful about what could happen based on the forecast before the storm arrived, my office and family were in a position to make adjustments to get through the storm and come out of it in good shape. By applying this mentality to your portfolio, you can put yourself in a better position to deal with a difficult market or an unforeseen event that life may deal you.

With the Dow Jones recently hitting 25,000 on the heels of a recent Fed interest rate hike, many investors are perplexed about what to do next — both with their portfolios and savings accounts.

Because of behavioral pre-dispositions, many investors will be prone to make decisions as a result of these events that may be inconsistent with their short-term and long-term financial goals. Many of us have been there before — it could be taking a “flyer” on something we know next to nothing about or making the same investment as someone we know (or don’t), in spite of it being inconsistent with our own goals and risk tolerance.

Or do you have all of your net worth and income tied to one company's fortunes, your employer? This predisposition is known as familiarity bias and led to tremendous angst and significant changes to the retirement plans of many investors following the Great Recession of 2008. Another is having a significant amount of your 401(k) sitting in cash. Have you asked yourself why you're doing this and what purpose it is serving?

Then there's the king of them all: not having a financial plan and strategy or thinking that the one in your head is going to get you where you want to be. For many investors making decisions without an up-to-date plan in hand, two emotions that have been the ruin of many an investor may force their way into the picture - fear and greed.

For most investors, these emotions appear at the absolute worst times: fear at or near market lows and greed at or near highs in markets and/or with individual securities. It's a cycle that repeats itself over and over again, but is avoidable with a definable and repeatable process in place. For your sake, and the sake of your financial goals, make sure that this process is consistent with your own investment time horizon, risk tolerance and need for liquidity.

As humans, we have a tendency from time to time to be overconfident about things. In some cases this can be in relation to very important issues, like our own and others' safety and our financial well-being. Being overconfident causes many investors to make decisions without enough information or guidance in hand to make a rational decision.

Many of us have taken the time to understand how to prepare for a major storm. We've seen the Red Cross pamphlets, followed the local weather team's guidance and read the newspaper articles. Have you taken enough time to prepare for a storm in your life that can affect your finances in a material way? If not, make it a resolution for 2018.

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