When You're Serious

By Bradley R. Newman, CFP ®

Guard against volatility, but don't panic…

Was Yogi Berra right, is it really "deja-vu all over again"? It sure seems like something we've seen before; Europe is dominating headlines, the U.S. government is reverting to its dysfunctional bias and as a result the stock market is acting irrationally. The volatility of the past four years has understandably left almost everyone feeling a bit anxious about the stock market and their own financial situation; however, if your portfolio is being properly managed, this is not the time to panic.

What Has Changed?

The reality is that nothing is fundamentally new since April. Yes, JP Morgan made some ill-advised trades, but that should not fundamentally impact the entire stock market.

Quite frankly, most of the issues dominating the headlines are the same issues that we've faced since 2009; the displeasure of a slow US economic recovery has been headline news since the warnings of a double-dip recession which began in the Summer of 2009, Greece's insolvency became headline news in May '10 and the inability of Congress to raise the debt ceiling in an orderly manner led to the downgrade of US credit in August 2011.

Is Your Strategy Sound?

The recent volatility provides yet another reminder to go back to the basics and determine if you have an appropriate strategy.

You currently have an asset allocation, either by choice or by default, but the question remains "is my allocation appropriate for my situation?" Your investment portfolio allocation should be based on your specific circumstances; unfortunately, too often there is a significant disconnect between an investor's goals or risk tolerance and how their portfolio is invested. The question that you should be regularly asking yourself is: "Is my portfolio well suited to my circumstances?"

You Should Be Taking Action

Please note that action does not equal panic, i.e., trying to time the market by moving in and out of in wholesale fashion. It is difficult to predict when the market will rise and fall and even if the market is following a general trend, there will be up and down trading days. However, action does entail disciplined asset allocation moves that will increase and decrease the level of risk in your portfolio as appropriate; the advice du jour of many advisors to simply "ride-it-out" or "hunker-down" is completely incorrect.

While most of the recent events credited with the rise and fall of the market should not have any fundamental impact on the market, the reality is that they have had a very real impact on the stock markets, the bond markets, and very likely on your portfolio, over the past several weeks. As these events have been unfolding, our firm began making adjustments to our client's portfolios in May as the impact began to emerge.

Assuming that you are already operating under a clear and appropriate investment strategy, based on your circumstances, the recent environment presented select opportunities to both reduce/eliminate more volatile holdings and to rebalance core positions up to their target levels in a disciplined fashion.

This Is Nothing New

The recent volatility is nothing new, we experienced this type of volatility, only worse, during the 2008 financial crisis almost four years ago, in the spring of 2010 as the Greek collapse began to unfold, and in the third quarter of last year as domestic economic momentum appeared to stall and as the prolonged debt ceiling impasse caused the U.S. to lose its AAA credit rating-each of these examples should have served as a wake up call. If you were impacted by any, or all, of these events but made no changes to how you managed your investment portfolio, shame on you.

Repetition is the key to learning - as with most things in life, financial lessons will be repeated in various forms – tech bubble, financial meltdown, debt crisis and issues yet to come – until the lesson is learned.

The real question is, when and how, will you take the steps necessary to adapt your strategies to protect yourself from these types of market volatility?

Bradley R. Newman, CFP® is with Roof Advisory Group, Inc., an independent investment management and financial advisory firm based in Harrisburg. The firm is a fee-only Registered Investment Advisor that provides portfolio management and financial planning services for individual and institutional clientele. The firm's email address is invest@roofadvisory.com.