



## Financial Turmoil – Doing the Right Thing for You

*Where does your financial information come from? And when you receive the information, what do you do with it? Here is a way to sort through the news and make the right decision for your individual circumstances.*

If you have even a small amount of money invested anywhere in the financial markets, it is likely that the latest stock market downturn caught your attention.

As I write this article in September 2008, the markets have taken a huge hit – four percent overall. It's the worst downturn since the September 11, 2001 attacks that left everyone running for cover. And whether you read it in the newspaper or on the Internet, saw it on the news, heard it on the radio or were discussing it at work or with family, you are sure to have some sort of reaction to the news. When major financial institutions file for bankruptcy protection, or are bought at fire sale prices, it makes everyone jittery!

Jitters notwithstanding, what do you do when you receive negative financial information? Do you have an instinctive reaction to protect yourself and rush to cut your losses? Many people do – that is why the market can dip severely in reaction to bad news, and it's also how we end up with “bubbles” where stocks are valued more highly than perhaps they ought to be. It's all a matter of investor confidence. The problem with following the crowd though is that doing so sets you up to buy when the market is high and sell when the market is correcting, or even crashing as it did recently. That is because “the crowd” always gets the information late, after the biggest gains are made, or the big losses start to show. In the words of a wise man: “When your barber starts giving you stock tips, then it's time to sell.”

So should you ride out the discomfort and do exactly what financial professionals tell you to do? Most investment advisors spend a lot of time on the phone with their clients after a big downturn in the markets trying to get their clients to hold on and not lock in their losses. Is that the right advice, though? It depends on your circumstances. And, it is your circumstances that you should be discussing with your financial professional as opposed to what the markets are doing today or next week. Your individual circumstances should have far more bearing on your financial decisions than whether the market is up or down.

Here are some questions to ask yourself before you call your advisor in a panic, and ask him or her to cash out of your investments: What is the purpose for your investment? Is it for long-term growth (greater than 5 years), or were you planning to make use of the money in the next year or so? If your need for this money is sooner than later, this should have been reflected in your risk profile when you first made the investments and means your investments (assuming they were made appropriately in the first place) will reflect a shorter time frame, less volatile (risky) saving or income type investment rather than a longer term growth type that is prone to fluctuate with market movements like we've had.

How comfortable are you personally with risk (risk, meaning probability of loss)? If you know that you couldn't bear to lose more than, say, \$10,000 on a \$100,000 investment, have you told your advisor about this, and have you put in any plans to stop your losses if your portfolio drops below the below \$90,000?

Does your investment portfolio match your risk profile? Have you asked your advisor to make sure that your investments are still balanced to match your comfort level and overall financial objectives as when they were first invested? "Rebalancing" your portfolio accomplishes this, taking profits from investments that have grown higher proportionately to the rest, and resetting the balance in your investments.

And finally, when you reduce the value of your investments down to the lowest denominator it becomes a lot more real. For example, if you have a \$100,000 invested and the value drops to \$90,000, what is the income that can be generated from the \$100,000 compared to the \$90,000. In all likelihood the difference will be only a \$100 or so. When you know what income is required to support your personal lifestyle preferences, your financial planning goals are to prepare all your finances so you can realize the income necessary to support those lifestyle goals. We don't live and breathe on an accumulated nest egg of investments – we live and breathe on the income that comes in to our homes to support each of our own personal lifestyles – all your planning needs to support and focus on the creation of ongoing income streams, which is a much more tangible and controllable number.

Whatever the state of the financial markets, it is essential that you remain true to yourself and to your lifestyle desires when it comes to managing your money. Your financial professional can help you, provided you give them the information they need to work on your behalf. Keep those lines of communication open!

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Money expert Tracy Piercy, CFP is the founder and CEO of MoneyMinding Inc., a wealth-building system that turns conventional money wisdom upside-down. MoneyMinding offers a turn-key marketing and coaching program for advisors who understand the importance of empowering their clients with education, and are looking for a system to streamline their client financial education process.

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