



## How to Stay Calm When Your Money's at Stake

*When your money is tied up in storm-tossed markets, it's easy to panic. But should you ride it out, or head for shelter? Here are 3 cool-headed tips to help you make the decision.*

I once had a 3 ½ million-dollar client who was afraid to let his wife buy boots. Over the years Bill (not his real name) had built up a tidy nest egg, but he lived in fear of losing his money. So I'd hear from him often, usually as soon as his statement came in, and his voice was always full of worry. "This investment is down – should I sell it? Do I have too much of that growth stock in my portfolio?" Month in and month out, whether the markets were up or down, he was always second-guessing his investments. What he wanted to know is, *am I going to be alright?*

Losing money is never easy. It's even harder when you have to make a decision to consciously lose money because you have made an investment that has not performed as you'd planned. This is why it's critical to have an exit strategy planned BEFORE entering into any sort of investment or financial transaction. If you haven't you likely have to make some choices at a time when you are facing a loss, or hefty fee.

You could be out-of-pocket because of an investment which has dropped in value in volatile markets, or perhaps you have locked-in loans but your situation has changed. In order to make a business decision about the best action to take you have to remove your own emotions from the equation. Step back and look at your original intentions so you can apply a systematic and calculated analysis on the money in question.

How? First, remember that your goal with any investment is to eventually convert savings to income. If it's your retirement savings, you'll be living on its cashflow when you are no longer working. When you convert your investments to income it's a smaller number. Although your \$100,000 lump sum might be down \$10,000 the income on \$90,000 is still likely in line with your expectations. Likewise, if a fee to refinance or pay down a locked-in loan is say, \$10,000, you will have to step back and calculate the long-term costs of doing, versus not doing, the refinance. A financial calculator is an invaluable tool for this purpose – if you don't know how to make these calculations yourself, your financial advisor should be able to work them out with you.

Second, remind yourself what your original risk tolerance was on the investment that has dropped in value. If you don't have this number (usually expressed as a percentage) then it should be in your files with your financial advisor. If the percentage of loss stated as a worst-case comfort level has been met, then a sell decision has already been made – you just might not have considered that given the current market value of your investment. And, if your original loss comfort level has not yet been reached, then you can relax and watch, knowing that if the situation worsens, you might need to realize a real loss.

And third, your exit strategy in a very volatile market is best done while considering your entire portfolio as well as individual investments. For example, if you have an investment that has dropped in value by 20% but across your entire portfolio you are only down by 3%, then you are in a better

position to hold onto the investment that has the large loss, because its overall impact is not creating a significant impact overall.

Back to Bill – when he got on the phone in a panic, we'd go through these three steps together. He stayed my client until I sold my practice, years later... and he and his wife still have more than enough money for boots.

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