Workshop | Battle Plan for Investment Volatility

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Question | What's causing volatility?

The Usual Suspects:

Global economic slowdown

China, Japan, Europe and commodity-based economies

Central banks are faith-based organizations

zero interest rates, QE and now negative rates

Cycles not banished by central bankers

Recoveries don't die of old age, but they don't survive forever, either

Stock valuations historically high

GDP-to-market value, Shiller P/E, Tobin Q, Price-to-Sales, etc.

Question | Does volatility really matter?

Conventional advisers say, <u>no</u>

Market history says, <u>not really</u>

Real-life experience says, <u>yes</u>

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The Key | Perot was right(ish)

Volatility produces stress
Stress produces a response

The Key:
You must build a model to
<u>limit your ill-timed responses</u>

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The Big Idea | people aren't robots!

Your capacity for risk
is trumped by
Your tolerance for risk

The Reaction:
You must build a portfolio that
<u>tilts toward tolerance</u>

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Risk Allowance | spend it wisely

Finding your personal risk allowance:

- Your age
- Your income sources
- Your balance sheet
- Your lifestyle burden
- Your past scars & DNA

The Tool:

Your personal asset allocation

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Step #1 | know your mix

Your asset allocation is the mix of
stocks, bonds and cash

It's only a 30,000 foot view

Step #2 | know what you own

Mutual funds are wrapper of chosen assets
Index funds are a wrapper of mandated assets

But, what's inside?

Example | know what you own

Imagine this mix:

S&P 500 Index
Russell 2000 Index
MSCI EAFE Index
MCSI Emerging Markets Index

You'd own about 4,000 securities

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Example | know what you own

Now, add to it:

S&P 500 Index
Russell 2000 Index
MSCI EAFE Index
MCSI Emerging Markets Index
Barclays Aggregate Bond Index
Vanguard Intermediate Term Bond Fund
iShares iBoxx $ High Yield Corporate Bond Fund

You'd now own about 10,000 securities

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Step #3 | diversify your exposures

Diversification's cost is...
your understanding of your holdings

Instead, diversify your risks...

Business risk
Industry risk
Interest rate risk
Credit risk
Liquidity risk
Country risk
Valuation risk

Closing Thoughts | Develop a Philosophy

Think less about "the market"

Instead, focus on "your objectives"

Remain flexible

Your spending and your investment decisions interact

Pick your "roller coaster"

As my mom says, "don't violate your gut!"

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Disclosure

This presentation was designed to enhance your understanding of various financial planning topics. This was presented as generic information and may not apply to your particular circumstances.

Given this, I strongly encourage you to seek professional advice from as many sources as possible. This advice may take the form of tax and legal professionals as well as your investment adviser.

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Questions or Comments?

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Thank You

for your participation.

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