

# 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, no

Market history says, not really

Real-life experience says, yes

# The Key | Perot was right(ish)

Volatility produces stress  
Stress produces a response

The Key:  
You must build a model to  
limit your ill-timed responses



# 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  
tilts toward tolerance



# Risk Allowance | spend it wisely

Finding your personal risk allowance:

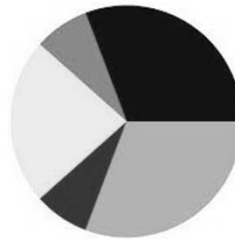
- Your age
- Your income sources
- Your balance sheet
- Your lifestyle burden
- Your past scars & DNA

The Tool:  
Your personal asset allocation



# 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



# 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



## 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!”



# 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.**



# Questions or Comments?

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Thank You  
for your participation.

