

fear & how we can move forward

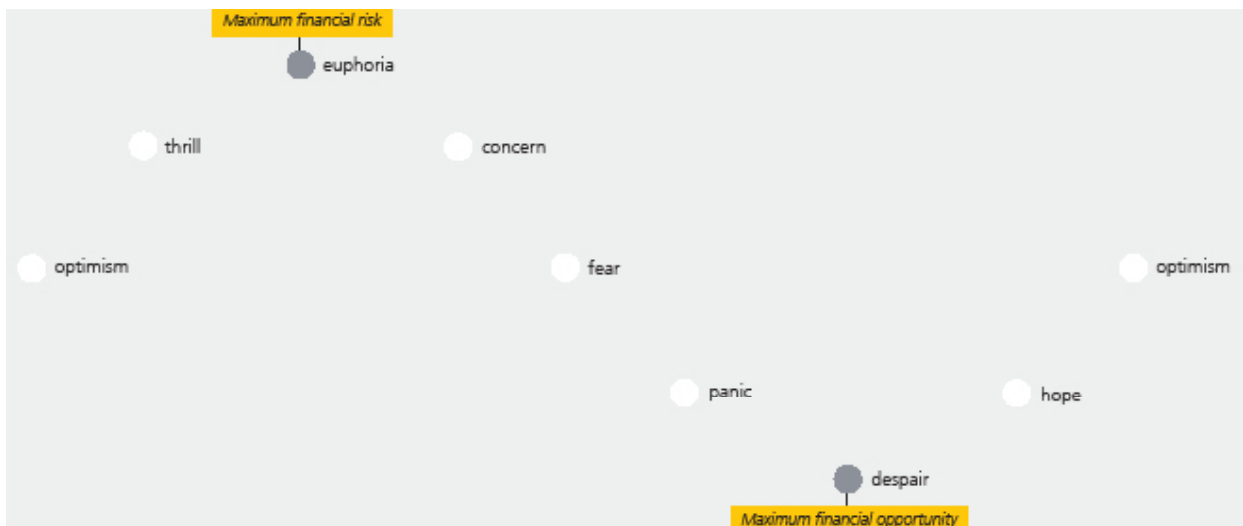
When it comes to investing, our emotions often lead us to do the opposite of what would be in our best interests. The financial crisis left many of us in a state of fear, where we either avoided risk altogether or took on too much risk to try to recover losses.

It is important to be aware of what we call the emotional market because our emotions often run counter to good investment decision-making. Most of us tend to get into the market at its peak, when we feel highly optimistic and even euphoric. This often leads us to buy assets at higher prices, thinking their value will continue to climb. And the majority of us are most likely to get out of the market when it hits bottom, when the concern we feel turns to despair. These emotions can lead us to sell assets at a loss, out of fear that they will continue to decline.

Opportunities and risks

We can see from the diagram below that we face maximum risk at the peak of the market cycle—just when we often feel the most excitement and tend to get into the market. And we get out of the market at the bottom of the cycle—just when we feel the most despair but, in fact, are facing maximum opportunity.

Having a financial plan in place can help keep you on a steadier course going forward by providing more objective and rational guidance for your investment decisions.



Where investor emotions and investor decisions intersect

Like most investors, you can likely identify with a number of the emotions that accompany a typical market cycle. But our emotions often run counter to good investment decision-making.

Planning

a more dynamic approach

As you begin the process of rebuilding wealth, creating or updating a financial plan can help guide you in making smart financial decisions and keep you from reacting to volatile markets in ways that aren't effective.

It is important to take a step back and conduct a thorough review of your current financial situation. This will allow you to determine what is objective and real about where you stand and separate-out what may be emotionally colored perceptions of the facts.

Multiple goals and timeframes

When it comes to developing a comprehensive plan, the financial crisis has taught us that we need to take a more dynamic, proactive approach. Each person has different needs and goals—and different timeframes for those goals. Different timeframes, in turn, impact the kind of risk and return structure needed for the investment strategy we put in place to pursue those goals. For example, you may need to keep certain investments working toward your retirement, but also be able to access funds for upcoming college education costs.

This view goes against the traditional approach. In most cases, investors have been assumed to have a single time horizon which was then attached to a single investment strategy. We can help you plan for upcoming college expenses as well as for your retirement. And we can help you follow a more disciplined but flexible investment process that includes:

- Realistically assessing your risk profile
- Building in short-term tactics
- Rebalancing as needed instead of on a set schedule

Let's have a conversation

I would be glad to discuss these topics with you further based on our report, *Crisis: what it taught us & an investment framework for the future*. In light of the market turmoil, your risk profile has likely changed.

We can review this and any questions you may have, including:

- What other investments should I consider as alternatives to an overallocation to cash?
- How can I benefit from potential opportunities while still protecting against losses?
- What sources of objective research do I have access to?
- How often should I rebalance my portfolio?

Feel free to write down any other questions or concerns you would like to discuss.

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