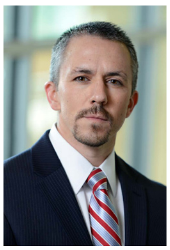
A Fire Drill for Investors

A good way to prepare for possible future downturns in the market is to review your portfolio during a bull market.



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Christopher Zehner is a Senior Financial Advisor in the Erie, Pennsylvania office of HBKS Wealth Advisors (HBKS®). He specializes in comprehensive financial planning and investment advisory services. Mr. Zehner's keen attention to detail has allowed him to help high-net-worth families achieve their financial and estate planning goals.

Mr. Zehner began his financial services career in 2000 and became a part of HBKS in 2001. He earned his Bachelor of Science Degree in Business Administration from Slippery Rock University and is a CERTIFIED FINANCIAL PLANNER®. He is a member of the United Way Steering Committee and has been active in the association's Young Leaders Society for the last seven years. After serving as Vice-Chairman in 2014, Mr. Zehner currently serves as the Chairman of the Young Leaders Society and is a member of the United Way Investor Relations Committee.

With the arrival of fall and students returning to the classroom, I'm reminded of one of the first things we'd do each school year, the time-honored fire drill. Fire drills were held on days when the weather was nice, and the entire school would file outside in an orderly fashion, the point being that in the event of a fire students would know where to go and, most importantly, not panic.

After seven and a half years of good weather for the markets, that is, a bull market in equities, it's time to conduct a fire drill on your investment portfolio, time to revisit your asset allocation to ensure it still fits with your life circumstances – your age, your family's needs, your future plans, your other assets, and so on. And because of the likelihood of a market correction or bear market – the S&P 500 has experienced a 20 percent or greater decline 12 times between 1946 and 2015, one bear market about every 5.8 years – a good starting point for your drill is reviewing how your investment portfolio is allocated in terms of stocks, bonds and alternatives.

While it's impossible to predict exactly how much your portfolio would decline in the next bear market, you can assess your exposure based on the percentages of stocks, bonds and alternatives you own. For example, if you are a couple years away from retirement with investable assets of $1 million and have approximately 75 percent of that money in stocks and 25 percent in fixed income investments, would you be comfortable with a potential short-term decline, say over a year, of 26 to 30 percent, a dollar loss of $260,000 to $300,000? If such a prospect disturbs you, it might be a good time – that is, prior to a next bear market – to consider adopting a more conservative allocation.

I should point out that I am a long-term optimist when it comes to our global economy. However history tells us capital markets will encounter a rough patch from time to time. You don't want to panic and abandon your investment strategy in the middle of a bear market; history also proves that is a bad time to sell or change course. Better to take advantage of these sunny days for equities to sit down with your advisor and discuss your asset allocation to determine if it still makes sense for you.

Investing can seem easy when markets are on the rise, but intelligent investing maintains a long-term view, even when markets are in decline. While we can't predict when the next bear market will occur, we can soften its impact on our investment portfolio by proactively monitoring and, where appropriate, adjusting the asset allocation. □