HBKS® Wealth Advisors

Slow and Steady Wins the Race

"The most treasured asset in investment management is a steady hand at the tiller." *-Robert Arnott*

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Steven Rinn is a Principal and Senior Financial Advisor in the Erie, Pennsylvania office of HBKS® Wealth Advisors (HBKS®). He began his financial services career in 2003 and became part of HBKS® in 2005.

Along with having his own financial advisory practice, he works with the firm's co-founder, Gregory Sorce. Mr. Rinn has experience in comprehensive financial planning, retirement planning, insurance and asset management.

Mr. Rinn earned his Bachelor of Science Degree in Financial Services from Edinboro University and is a CERTIFIED FINANCIAL PLANNER™. He is Life and Health Insurance licensed.

"Never forget the six-foot tall man who drowned crossing the river that was five feet deep on average. The important thing to remember about investing is that it is not sufficient to set up a portfolio that will survive on average. The key is to survive at the low ends." – *Howard Marks*

At the time of this writing the DOW has officially surpassed the 20,000 mark. Should we sit back and enjoy this historical landmark or is it a cause for anxiety? Should we join the chase or get out before the next big market drop? It is human nature to be anxious about the future, particularly in terms of our financial wellbeing. Are we in a bubble? Am I making enough? Company earnings have yet to catch up with increasing stock prices, so will the economy grow into the current market move upward? These are all valid questions that can make us feel uneasy, even as we enjoy the recent gains.

Simply put, fear is your enemy.

You could have easily spent the last 12 months tuned into the 24-hour news stations, hanging on every volatility-causing story - including $25 oil, Brexit and the brutal election cycle - considering all of the possible negative outcomes. "Sell! Sell!" your fear would have screamed at you. And had you listened, you would have missed one of the most dramatic postelection market moves ever.

Just when movement stalls and returns seem destined to be negative, the market's unpredictability will surprise you. In fact, markets tend to outperform when expectations are at their worst.

So, how do we temper the mix of jubilation and fear that the volatile market is certain to induce? What will be the most prudent course of action through that uncertainty? We strongly recommend staying the course with a properly diversified portfolio.

This type of balanced portfolio is what gets families through life, particularly their retirement years. Chasing returns on the upside and trying to time selling to avoid an anticipated market downturn is all too often a losing game. Properly allocated portfolios might not make for the most exciting investments, but over time slow and steady wins the race.

HBKS advisors focus on asset allocation, investing based on each client's individual goals and objectives, particularly cash flow. One of the biggest risks to an investor's portfolio occurs when he or she needs funds at an inopportune time and is subsequently forced to sell an asset that is in decline in order to meet cash flow needs or other obligations. This can be especially damaging to retirees with highly concentrated investment positions.

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As investors, we all want to capitalize on the upsides of the stock market and avoid the inevitable downsides. But the most productive long-term approach is a properly diversified portfolio based on our individual goals and objectives. Proper allocation is the smart approach, and much more important in portfolio construction than trying to pick winners. It can be tempting to succumb to the hot stock tip or place a big bet on a single asset class, like commodities ("They're due!"), U.S. large caps ("They'll soar with a tax break!"), or real estate ("Prices are recovering, right?"), but this typically isn't the wisest approach.

Following an asset allocation strategy may be difficult at times. It could involve maintaining an allocation to bonds in a rising rate environment, or owning international stocks while the U.S. markets are outperforming their overseas' counterparts. Markets are a little like rubber bands though, the more they are stretched, the more likely they are to snap back. Allocating assets to include such investments as U.S. and international equities as well as alternatives can help to smooth the ride. Adhering to an asset allocation strategy does not ensure you will completely avoid market declines, but it does tend to minimize the lows when they inevitably come.

Consider Warren Buffet's rules to investing – Rule #1: Never lose money, Rule #2: Never forget Rule #1. So how do you go about doing that? Is it by gambling on a quick run up with exposure to a larger decline down the road? Or are you better off with a more modest return today while protecting against downside in the future? Let's do the math. Assuming the following annual returns, which is best?

Example 1:	15%, 15%, 15%, 5%	Beats	25%, 25%, 25%, -20%
Example 2:	20%, 10%, 5%, 5%	Beats	30%, 20%, 15%, -20%
Example 3:	5%, 5%, 5%, 5%	Ties	15%, 15%, 15%, -20%

It might not be immediately evident, but in examples 1, 2 and 3, the properly allocated portfolios (the "slow-and-steadies") beat the more dramatic gains and losses. And in example 3, the two approaches end up in a tie, with the "sleep easier at night" bonus going to the more balanced portfolio. This illustration proves that patience and the smooth ride provided by a smart portfolio is the better approach[1]. After all, we may not always be lucky but we are always prudent.

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In conclusion, when our emotions (whether jubilation or fear) seem to be getting the best of us, it is ever important to keep a level head. Turn off the 24-hour news channels and maintain proper diversification. The global economy is certain to create wealth over the coming decades. It might pause from time to time but it won't be stopped. Trust the smart strategy of properly allocating your portfolio with periodical rebalancing and you will have the best chance of participating in long-term global growth without the emotional stress of rising and falling markets.□

1- Jakab, S. (2016) *"Heads I Win, Tails I Win"- Why Smart Investors Fail and How to Tilt the Odds in Your Favor.* New York, New York: Portfolio/Penguin.

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