A Headline Grabbing Start to 2016

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WEALTHCARE
financial guidance for life

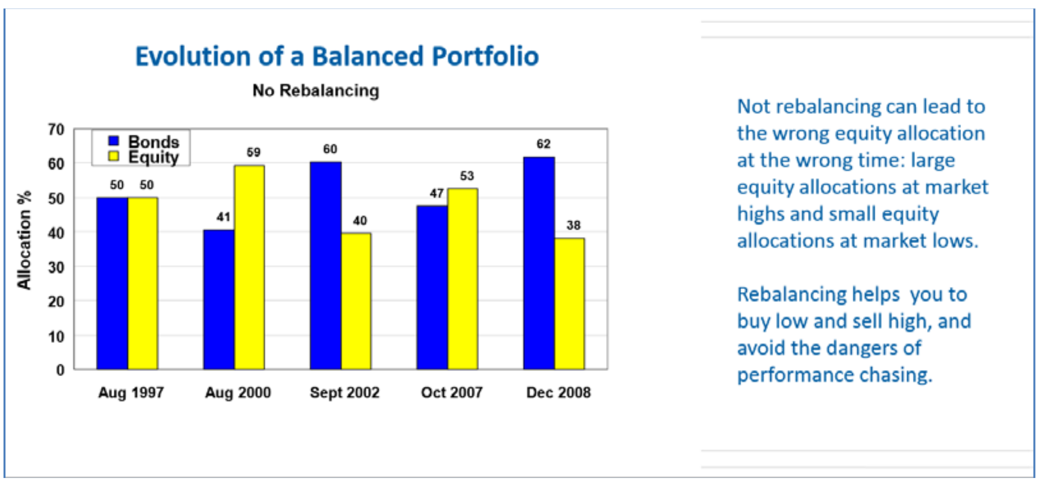
Headlines are NOT part of Goals-Driven Investing

As you may have read in the financial news over the weekend, a typical headline read, "U.S. Stocks Have Worst 5-Day Start to a Year Ever." Ominous headline indeed. So, what should you do, if anything?

For starters, let's revisit the Wealthcare process, as it is a process that works for you in any type of market, up or down. As a Wealthcare client, you have both a goals management process and investment strategy in place. As part of our goals management process, we simulate one thousand lifetimes of market activity and capture down markets like the current one and worse. When we calculate your Comfort Zone® score each quarter, it is based on simulations that include periods of bear markets as well as bull markets. So, your goals-based financial plan has already contemplated this type of market activity – and worse.

Down markets that are headline-making escalate fear. It's quite natural. It's human nature. It's how most of us are wired. That said, there is a large body of research demonstrating that ***emotional investment decisions are the enemy of long-term investment performance.*** Great investors understand predicting short term market activity is a futile exercise. They tend to stick to their process and thereby eliminate emotional reactionary decisions. At Wealthcare, we believe wholeheartedly in our process because it has served our clients well over both stable and volatile market periods. To be clear, we are not saying, sit back and do nothing. We are saying that ***any change in your investments are best done in the context of your goals-driven investment process, in consultation with your advisor***, not in reaction to the latest headline-making sell-off.

One important component of your goals-driven investment strategy is a disciplined rebalancing process we manage on your behalf on an ongoing basis. The chart below illustrates how the allocation of a balanced portfolio would have shifted with market movement from 1997 to 2008, if it was not being rebalanced. The S&P 500 closed near 900 on both September 1997 and again in December 2008. Beginning with a balanced mix of 50% stocks and 50% bonds in 1997, the equity allocation peaked with the equity market highs in 2000 and again in 2007 and bottomed with equity market lows in 2002 and 2008. If your portfolio was not rebalanced, the market forced its own costly rebalancing. Conversely if your portfolio had been proactively rebalanced, you would have taken less equity risk at the tops, as your equity exposure was reduced by rebalancing, and you would have had increased equity exposure at the bottoms. Our rebalancing discipline is contrarian in nature and is designed to keep your portfolio risk in line with your goals-based financial plan.



While “The worst five-day start to a year ever” is a disconcerting headline, there is nothing special about the first five days of the year. Stocks are down about 6% for the first week of the year and this is not to be taken lightly. Volatility like this is often a precursor to a bear market, but not always. No one knows for sure. Even if you were to sell your stocks on the belief of an imminent bear market and even if you were correct in your prediction, you would also need to be correct in deciding when to buy back into the market. You will have entered the realm of market timing and emotional investing which history has shown to be hazardous to one’s wealth. Here are some examples of short-term sell-offs and the longer-term implications:

- On September 22, 2001, the New York Post ran a headline “WALL STREET WIPEOUT; STOCKS CLOSE OUT WORST WEEK SINCE GREAT DEPRESSION.” It was just after the September 11th World Trade Center attacks. The Dow was down 14.3% for the week. Selling on the headline, after the market had already dropped, would not have served you well. The market rallied over the next several months, then fell again, bottomed in 2002 and then entered a 5-year bull market.
- On a single day in October of 1987, the 19th, the Dow fell 22.6%. Those that ran for the exits and sat on the sidelines rapt in fear missed out on the ensuing decade-long bull market.
- If you didn’t’t get out of the market before the financial crisis of 2008/2009, you experienced more than a 40% loss in stocks for the six months from the end of August 2008 to the end of February 2009. However, from August 2008 to December 2015 stocks returned about 9% annually, including the 40% loss experience. From the lows of 2009, the S&P 500 returned more than 18% a year annually through the end of 2015. The Wealthcare goals management and rebalancing processes had clients buying into that bear market. Contrarian investing has a better chance of working over time than performance chasing.

Each year a financial research firm, DALBAR publishes an analysis of mutual fund investors. For the twenty years ending December 2014, the S&P 500 returned an average of 9.85% per year compared with the 5.19% average annual return of stock fund investors. The reasons? Failed attempts at market timing, performance chasing and costs. The Wealthcare process is designed to avoid these missteps. At Wealthcare, we believe in process over prognosis. It has served us and our clients well over time and through far worse market periods than today.

An ongoing part of the Wealthcare goal-based process involves goal setting and goal adjusting. The entire Wealthcare team is dedicated to helping you achieve your goals and that means helping you navigate through rough waters that inevitably come along the way in life. If market volatility continues, rest assured the Wealthcare team is working on your behalf — behind the scenes — and your Wealthcare Advisor is always on deck for you.

Despite the rocky start, we wish you all a healthy and prosperous New Year.

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