Focusing on Factors You CAN Control

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Every investor normally has personal goals in mind that they would like to achieve. Although most non-retired adults have some savings, only 36% say their nest egg is "on track," according to the Federal Reserve. Sometimes, those eager to boost retirement savings could become more aggressive and start considering more volatile assets in an attempt to achieve higher returns. Sadly, this might be a recipe for a huge disappointment. Discipline has always played a fundamental role in investing and many best practice approaches start by having investors define their personal goals.
(Source: CNBC 6/27/2021)

Knowing what your goals are is traditionally the first step to achieving them. The second step is creating a plan that is best suited to reach those goals. The third, and hardest part, is sticking to that plan even through volatile and uncertain times. It is easy to forget about your financial plan and focus on other aspects of your life when things are going well. However, when inevitable fluctuations or market moves arrive, even the steadiest investors could become nervous and veer off course.

Volatility in both equity and bond markets is part of the investing experience. Although historically, stocks have provided higher long-term returns than bonds or short-term investments, stock prices are not destined to move in a straight line. Understanding what you can, and perhaps more importantly, what you cannot control in the investing world, can help even the savviest investor better weather any storms that arrive.

Three things an investor can control are:

1. Your required rate of return
2. Your time horizon
3. Your behavior

If you have a firm grasp of each of these, you should be able to maintain discipline and remain calm when volatility and market fluctuations arise.

Required Rate of Return

Required rate of return is the minimum amount of return required for an investor to achieve their financial goals and objectives. RRR will indicate the level of uncertainty (risk) you should accept to achieve your goals.

Knowing what your required rate of return is and having your goals at the forefront should be a part of your financial strategy. Four good questions to ask yourself to assess your required rate of return are:

1. *What is my overall financial position?*
2. *What is my time horizon?*
3. *Do I have the financial ability to endure market declines?*
4. *How will I emotionally react to market volatility?*

It is important that you determine your required rate of return before making investment choices. When implementing your financial plan, it is crucial to consider your goals, objectives, and your time frame for investing before making your final decisions.

As your financial planner, one of my primary goals is to help you create a plan that considers both your goals/objectives and RRR. If you are not quite sure what your required rate of return is for your plan, call me and I can help assess and determine this for you.

Time Horizon

Your time horizon is another vital component that you can control. Knowing how much time you have to reach your goals will help you determine other key elements like your risk tolerance. While no one can determine what will happen in equity markets during either the short- or long-term, if your horizon is longer, you may have more choices or a willingness to take on more risk. An investor who can commit to a 10-year time horizon can consider different selections, as compared to someone who needs to use that money in six months.

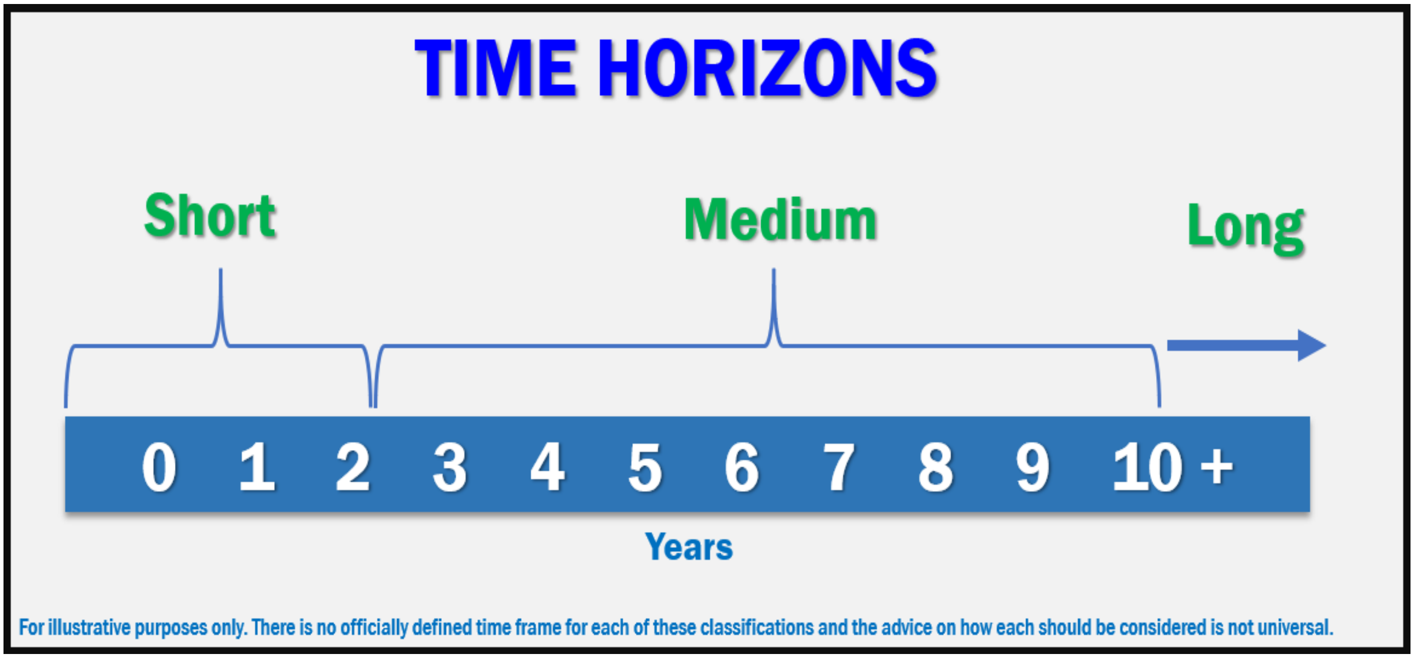
Generally speaking, the investor time horizon can be simplified to three major classifications: short, medium, and long. Please keep in mind there is no officially defined time frame for each of these classifications and the advice on how each should be considered is not universal.

Short term: two years or less

Medium term: two to ten years

Long term: ten years or more

Determining what your time horizon is will allow you to develop a plan around that timeline. While long-term investing typically could give you a better chance at minimizing any anxieties that could be caused by short-term market noise or volatility, some investors can have a medium- to short-term horizon. **No matter what your time horizon is, I suggest focusing on your personal timeline instead of trying to time the market.**



By helping you determine what your specific time horizons are, I can help you establish a financial plan that is best suited to help you pursue your goals.

Investor Behavior

While you can determine your required rate of return and time horizons, ultimately, your ability to emotionally endure the ups and downs of your investments will be a primary factor. A foundational rule of investing behavior is, don't panic! In times of market volatility, many investors tend to become unnerved and anxious. This is usually not the best mindset to make rational decisions. Instead of making an emotion-based decision, three questions you need to ask yourself are:

1. *Have my financial timelines changed?*
2. *Have my financial goals changed?*
3. *Has my required rate of return changed?*

My goal is to help clients avoid making impulsive investing decisions. If you answer "yes" to any of these questions, I suggest you call me to discuss those changes before making any decisions.

I want to make sure you are comfortable with your investments. Equity markets will always have the potential to move up and down. Even if your time horizons are long, short-term downward movements in your portfolios are possible. Make sure your investing plan is centered on your personal goals and timelines.

Conclusion

Required rate of return, time horizon, and your behavior should all be considered when investing. Many investors may feel they have the emotional fortitude to withstand volatility, however, they may not have the financial stability to ride it out. Conversely, some investors may have the financial stability and time horizon but simply have a high aversion to any sort of financial loss or fluctuations.

As your financial planner, I take all these key elements into consideration when assessing your financial pictures and determining a plan that gives you the best chance to achieve your goals. I am always available to revisit your financial portfolio and plan to make sure they are still compatible with your timeline goals and required rate of return.

As a reminder, please keep me apprised of any changes (such as health issues or changes in your retirement goals). The more knowledge I have about your unique financial situation the better equipped I will be to best advise you.

I pride myself in offering:

- consistent and strong communication
- a schedule of regular client meetings
- continuing education for every member of our team on the issues that affect my clients

My primary responsibility is to focus on your personal financial goals.

*I still maintain a **"proceed with caution"** approach. If your goals or objectives have changed, or if you have any questions or concerns, please call me.*

A skilled financial planner can help make your journey easier. My goal is to understand my clients' needs and then try to create a plan to address them.

Complimentary Financial Check-up

If you are currently not a client of Jaron H. Poulson, CFP®, I would like to offer you a complimentary, one-hour, private consultation with Jaron at absolutely no cost or obligation to you. To schedule your financial check-up, please call Morgan at (385) 388-4386 and we would be happy to assist you!

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