FEAR, GREED AND SURVIVAL

Don't let emotions negatively impact your retirement portfolio decisions

LORI PINKOWSKI

Managing risk in your investment portfolio is always important, but it's vital during retirement, when you have less time to wait out a recovery or add funds through a savings strategy. With stock markets hitting all-time highs, this is an ideal time for you to reassess your goals and the risk levels you are taking in your portfolio.

If investors want to successfully navigate market volatility, it is vital to have the ability to remove emotion from investment decisions. Otherwise, they are likely to make the wrong move at the wrong time. As Warren Buffett said, if you're emotional about an investment, you are not going to do well; you may have all these feelings about the stock but the stock has no feelings about you. It's easy for investors to get caught up in the day-to-day headlines with all the political uncertainty, global growth concerns and economic updates, all of which need to be considered by their wealth management team.

Since you have no control over the stock market or how an investment will perform, you need to ensure that you have a plan in place for both when to buy and when to sell. You need to understand what to expect from your portfolio as well as what realistic returns and volatility you can likely see. This is an important step in eliminating negative emotional behaviours and avoiding knee-jerk decisions that can have significant adverse effects on your investment returns.

Fear and greed are the two most common but dangerous and damaging emotions in investing. Greed can cause investors to take on more risk than they are actually comfortable with or chase performance by jumping from one investment to another following the most recent winner. Fear can lead to holding on to cash for too long, waiting to feel "good" before investing, or selling investments at the worst possible times.

The stock market is volatile. As good as the U.S. markets are this year, the S&P 500 experienced a 20% fall a year ago. Your investment portfolio doesn't have to be the same. A diversified portfolio, with active management and a defined risk management strategy, will reduce your volatility, making it easier to sleep at night while still aiming to hit your own personal return targets determined by your personal risk tolerance and financial goals. While there are never any guarantees when investing, it's important to stick to your investment strategy throughout the market swings to achieve those goals. However, this doesn't mean "buy and hold," or "buy and hope," as we like to call it. Instead, your investment strategy needs to be flexible and allow for your asset allocation to change with conditions; for example, holding more cash during periods of increased risk in the markets.

While volatility is normal, it still needs to be properly managed. Avoiding exposure to the sectors that are not working and allocating more funds to less volatile areas that are performing well is an example of proper management. Your investment team should be monitoring global news and your positions daily with a proactive risk management strategy in place. They should also take steps to proactively shift your portfolio into a more defensive mode. With conditions as they are now, you not only can consider reducing your exposure to stocks by taking some profits and moving to fixed income, but you also may want to look at shifting some of your stocks from cyclicals to defensives. Moves like these are ones that you or your financial advisers should be implementing on a regular basis.

Another method to help alleviate worries and not make emotional decisions during volatile times is to develop a financial plan that includes projections of where you should be in terms of net worth at any given stage of your life. Regularly comparing where you are with where you should be in that plan will reassure you that you are still on track or, better yet, ahead of schedule.

It's normal to have emotions when it comes to your finances. Just don't let them influence and negatively impact your decision-making when it comes to your retirement portfolio. It's important to have a proactive investment strategy that works for you in all market conditions, paving the way to a much more relaxing and prosperous financial future and retirement.

Lori Pinkowski is a senior portfolio manager and senior vice-president, private client group, at Raymond James Ltd., a member of the Canadian Investor Protection Fund. This is for informational purposes only and does not necessarily reflect the opinions of Raymond James. Contact Pinkowski at *pinkowski@raymondjames.ca*.

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