The right portfolio is like finding the right pet

Managing Your Money

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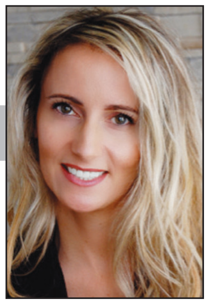

Over the past few months, we have been fielding an unusually high volume of calls from readers who are unhappy and stressed about their current investments. Most of them are looking for a second opinion. During the same period, we have received very few calls from our existing clients, unless it's to add money and take advantage of the markets. Is it because our portfolios are "better"? Maybe in some cases, but probably not. Is it because we've been in regular contact with most of our clients? That certainly helps, but I doubt that's the whole story. I believe that

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it's because we spend a great deal of time trying to understand our clients, and what "risk" they can tolerate without anxiety. In other words, what kind of portfolio they need to sleep soundly at night.

"Risk" means different things to different people. Part of an advisor's job is to identify this with each client. How do we do this? Of course, there is the standard "risk tolerance questionnaire" that most firms use. Unfortunately, many advisors use ***only*** this risk questionnaire, and present it only once, at the beginning of the relationship - and this is part of the problem. We age, we retire, we inherit money. As life changes, feelings about risk need to be reassessed. But that questionnaire only scratches the surface; a person's relationship with money goes much deeper than that.

I think we can agree that most people value money. It provides a roof over our heads, food to eat, transportation, education, entertainment, travel, etc. Not to mention security, freedom, independence, and so on. In most surveys about life satisfaction and happiness, money is either ranked #2 or #3 after health and/or relationships. Therefore, it's not surprising that emotions can be closely attached to money.

When it comes to investing, the two primary emotions that come into play are fear and greed. When it comes to "risk management", we are mainly talking about fear. Fear is not bad in and of itself; it's meant to protect us. But when fear turns into anxiety, sleepless nights, and constant worry, it makes us more vulnerable to disease and illnesses. We have enough things to worry about in life, without having to worry about our investments.

When markets are doing well and returns are solid, most people will say they are comfortable with the risk level and may even want more. But in my opinion, that is a skewed assessment of risk and comfort. Of course everyone is happy when things are going up! It's during the bad times we can gain true insight into assessing if the portfolio is a good match and thereby reducing investment stress and anxiety. One of Canada's major financial institutions advertise their "sleep-at-night portfolios". It's not the actual portfolio that will help you sleep at night - it is finding the right match for you.

Consider the importance of choosing the right pet. My mother-in-law is a petite lady with a high energy, 70 lb. Labrador retriever who is stronger than she is. There is nothing wrong with Buddy; he's a big, handsome, energetic dog. But he's probably not the best match for my mother-in-law. When they got him, it was my father-in-law who was walking and training him. At the time it was a good fit. But things have changed now that he has passed on. She's not going to give up her beloved Buddy at this point, of course, but investment portfolios are different. They too should be matched to the investor, but when things in life change, so should the portfolio.

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Many people don't even understand their own risk tolerance, let alone know how to communicate it. Mix in emotions, and it becomes clear that a true understanding of risk tolerance requires more than a simple questionnaire. A good advisor will use a series of questions that lead to discussions about risk, past experience and behavior, fears, and so forth. With good understanding, this leads to a portfolio that fits well with the client's comfort level.

During these more challenging times in the market, take this opportunity to see if your portfolio is a good match for you. Ask your advisor to reassess your risk tolerance. Not only with a simple questionnaire, but it should open a conversation with deeper questions. This will help give good insight that ultimately should reduce anxiety about investments, now and in the future.

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