Financial *focus*

ACCRUENT WEALTH ADVISORS

FALL 2022

In This Issue

Can You Take a **Punch?**

Michael Ryan, CFP®
Hendersonville, TN

Mike Tyson, the former world heavyweight boxing champion, is not well known for making profound observations, but I believe he made at least one. Once, prior to a fight, a sports reporter asked him how he planned to handle his opponent who had said that he had a special plan to defeat "Iron Mike." His response was that, "Everyone has a plan until he is hit in the mouth!" Mike may not have realized it at the time, but his observation has meaning far beyond the boxing ring.

There is more than one way to be a successful investor in the equity markets, but the one thing that most successful investors have in common is that they have a plan. Warren Buffett, who has enjoyed a modicum of success, buys businesses that he believes are undervalued and then holds them for the long term. I am told that there are successful day traders (though I do not know any) and I suspect that they have plans that they follow to time their trades. Others who invest in individual stocks have buy and sell rules based on price earnings ratios, dividend growth rate, the markets 200 day moving average, or other criteria that they follow. Still others have realized success using stock and/or bond mutual funds.

The investment policy that I suggest for my clients is to allocate one's investment money between equities (stocks or stock funds) and bonds and cash in a fashion that meets their individual needs. They should think of their equity portion as their growth engine; money they will not need for three to five years. The bonds and cash portion of the portfolio serves to smooth out the inevitable swings in the equity markets, hopefully provide a bit of growth, and be a source of ready cash. As the various asset classes move up or down in value, these positions would be periodically rebalanced by moving money from one position to the other to keep the initial allocation plan in place.

Of course how much you may allocate to each portion depends on your particular circumstances. You should consider your age, your future goals and financial needs, and your tolerance for risk. But once your allocation decision is made, I suggest you stick with it through the market's ups and downs. Following such a plan accomplishes at least three important things: 1) It forces one to buy low and sell high as the rebalancing process will dictate that gains are taken from positions that have grown to be too large and invested in the positions that are smaller than the original allocation called for; 2) It takes emotion out of the decision; and 3) It keeps us from trying to "time" the market by jumping in and out, which no one has been reliably able to do over the long term.

Perhaps the most important thing an investment policy can do for us is to help control our emotions. Many studies (Google it) have shown that emotions often lead us to make exactly the wrong investing decision. Rational investing decisions are best made with CNBC turned off, all of the "talking heads" tuned out, and our long-range plans in mind. This is easy to say but hard to do. It is difficult to avoid the herd mentality as everyone is rushing for the doors screaming about the sky falling and the end being near! It seems no one likes equities when they are discounted and put "on sale," but that is when they will be purchased by those who are rationally rebalancing their portfolios and following their plan.

One of the roles I try to fill for my clients is that of an emotional anchor; I try to keep them from getting too high when the markets are going up, or too low when markets turn down. Every asset class has its day, and all of them will eventually go both up, and down, in value. That is why I suggest a balanced portfolio where our money is spread over a variety of asset classes. That is also why I suggest we establish a plan, or a policy, that helps us decide when it is time to make changes to that portfolio.

So this is where Mike Tyson's observation may apply to us. We need to ask ourselves if our plan is good enough to withstand a stiff punch to the mouth by the stock market; or put another way, are we committed to stick with our plan after such a lick? A well-conceived plan, or investment policy statement, will help you do just that. You will very likely be rewarded if you do as history has shown that the disciplined investor is more likely to succeed over the long term. But through it all remember: money is not the most important thing, perhaps not even in the top ten; but still, money matters.