Balancing Stock Market Investing

By

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When it comes to investments, a penny saved is actually more than a penny earned.

If you do the mathematical calculation, it takes a lot of heavy performance to recover from losses. There is value in the argument that just by minimizing your losses in your investment portfolio, you can help improve your financial performance even if your performance is less than the stock market's value when it has performed positively for the year.

For example: If you had invested aggressively $100,000 in your portfolio, and during the 2008 and the 2009 crisis, it lost 50 percent of its value, it would be worth $50,000. For your portfolio to get back to its initial $100,000 value, it will have to double or grow by 100 percent.

If your portfolio lost 25 percent of its value, and therefore was worth $75,000, then it would need to grow by 33 percent to return to its $100,000 value. So getting back to 'even' requires more upside performance than it does on the downside to incur the losses. What can you do to minimize the impact of downside performance?

1. **Stay away from trading on margin**. That is where you actually take a loan on your portfolio assets so you can invest more than you have. This is also called 'leverage.' When your portfolio is 'levered,' you enhance the upside performance, but unfortunately, the downside can also be greater.
2. **Keep a diversified portfolio of stocks, bonds and alternative investments.** The balance among the three asset classes depends on a variety of factors that you and your financial advisor need to determine.

3. **When allocating among asset classes, you can overweight investments that have traditionally had low volatility.** These include large-cap, dividend-paying stocks; high-quality corporate bonds with maturities of less than five years; and alternative investments such as long-short funds whose managers operate with constraints about making large bets or real estate investment trusts (REITS) that do not use leverage, seek out high yields and are diversified.

All of this is particularly important as you want to have a portfolio that you can stay with when the market loses value and when others are selling out in a panic.

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About Susan Carr-Templeton

Susan Templeton is the founder of Stafford Wells Advisors, a wealth management firm serving individuals, families and businesses and advising workplace retirement plans. Stafford Wells was founded in 2008 with the mission of delivering independent, complete, unbiased investment and planning advice, free of any conflicts of interest. Susan Templeton has more than 20 years experience in investment management. She received her B.S.B.A. degree in marketing from the University of Denver and her M.B.A. from the University of Chicago. Susan is a trustee for the Advocate Foundation where she chair's the Planned Giving Committee and is a member of the Investment Committee. Susan serves on the investment committee for the Visiting Nurse Association (Chicago) and is a former trustee of the Village of Oak Brook Police Pension Plan.