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THE EVOLUTION OF FINANCIAL INTELLIGENCE

## GROUNDBREAKERS

From financiers to museum heads, 29 women who are changing the world.

## FEARLESS GIRL'S BROKEN PROMISE

Did the provocative statue actually change anything for women on Wall Street?

# WOMEN AND THE MAKING OF A RICH LIFE

# Q: How can I recession-proof my investment strategy?



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► **Since World War II, there have been 11 recessions**, coming about every 7 years on average. The longest stretch between recessions was 11 years (1990-2001). Given that the Great Recession started in December of 2007—about 11 years ago—some are saying, “We’re due.”

I won’t make any recession predictions here, but when the market has wild swings, as it did at the end of 2018, panicked investors’ urge to dump stocks that lose value is understandable. But investors and advisors alike simply must resist that urge. How? Here are three ideas to help recession-proof your investment strategy.

## 1. TUNE OUT THE NOISE AND TUNE IN TO LOGIC.

There are basically two ways to make a decision: the emotional way and the logical way. Leading financial research firm

DALBAR found that emotional decisions are the major cause of underperformance. In today’s world, with its in-your-face news cycle, or what we call “the Noise,” upsetting information washes over us 24/7. So how do we tune out the Noise and remove emotion from our financial decision-making process? Well, one way to tamp down emotions is to...

## 2. HAVE A GAME PLAN.

It starts with understanding the minimum acceptable rate of return you need to reach your financial objectives, now and after retirement—whatever the Noise or the state of the markets is. For example, during the year-end holidays of 2018, as the markets gyrated, a panicked client called me asking, “What we are going to do?” My answer was, “Stay with the game plan.” She was surprised until I explained:

*We have balanced your portfolio with 50 percent bonds and 50 percent equities. The fixed rate on the bonds should give you 10 to 15 years of necessary income without you needing to touch your equities. So, unless the turmoil in the market or a recession presents an investment opportunity, we will leave your equities alone until the storm passes.*

That had always been her game plan, and once I reminded her, she felt much more comfortable about the recent market volatility, because her game plan works!

### 3. INTEGRATE YOUR INVESTMENT STRATEGY WITH YOUR FINANCIAL/RETIREMENT PLAN.

Mike Tyson once said, “Everyone has a game plan until they get punched in the face.” Every recession is just that—a financial punch in the face. And people who manage their own investments, or “DIY investors,” often do not have a strategy for absorbing that punch. So they will call us for, shall we say, an *effective* game plan.

Which is, we integrate a client’s investment plan with his or her financial/retirement plan. This puts guardrails around an investment strategy. A key element of those guardrails is an investment policy statement that we create for clients. Once approved, all parties agree to stay disciplined and follow the strategy set out in the statement—in good times *and* bad.

We then create a strategic asset allocation per client, like the 50 percent solid equities and 50 percent conservative fixed income in the example above. During a recession or market correction, the allocation may go from 50/50 to 40/60. This provides a strategic time to logically rebalance back to a 50/50, which allows us to sell bonds high and buy equities low. This avoids an emotional decision to get out of the market until better times—that is, to sell low and buy high.

In short, this approach goes a long way toward removing emotion from of the process and ensuring that logical decisions are made in volatile markets. When those guardrails are up, investors can, and do, tune out the Noise, absorb those market-correction punches and come out feeling like winners. ●

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#### ABOUT PIONEER FINANCIAL AT NORTHWESTERN MUTUAL, LLC



**Pioneer Financial at Northwestern Mutual provides financial services to high net worth and emerging high net worth individuals, families and business enterprises.** Pioneer Financial’s team of 17 associates and staff serves clients nationwide from their Park Avenue office in New York City. Kevin R. Luchetta, Stephen

A. Schwartz and James L. DiNardo are wealth management and Certified Financial Planner™ practitioners. The practice is focused on assisting clients through comprehensive financial planning that includes asset management, retirement funding, risk management, and estate preservation and distribution.

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