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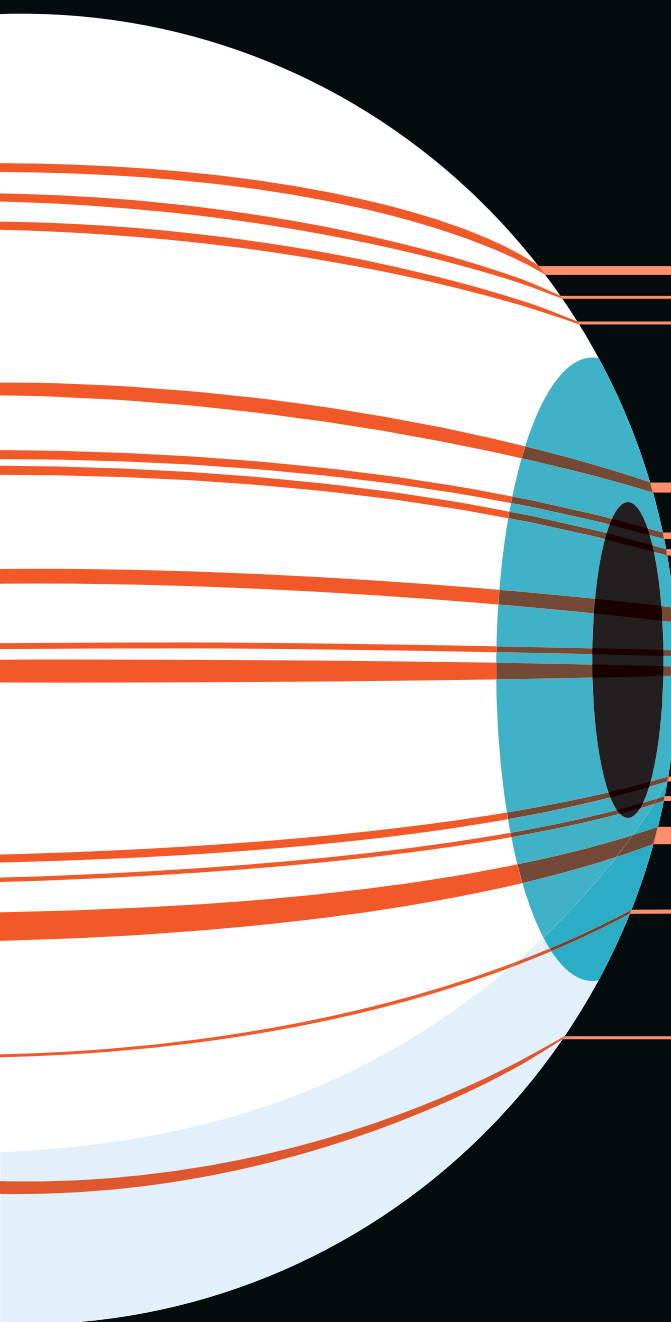
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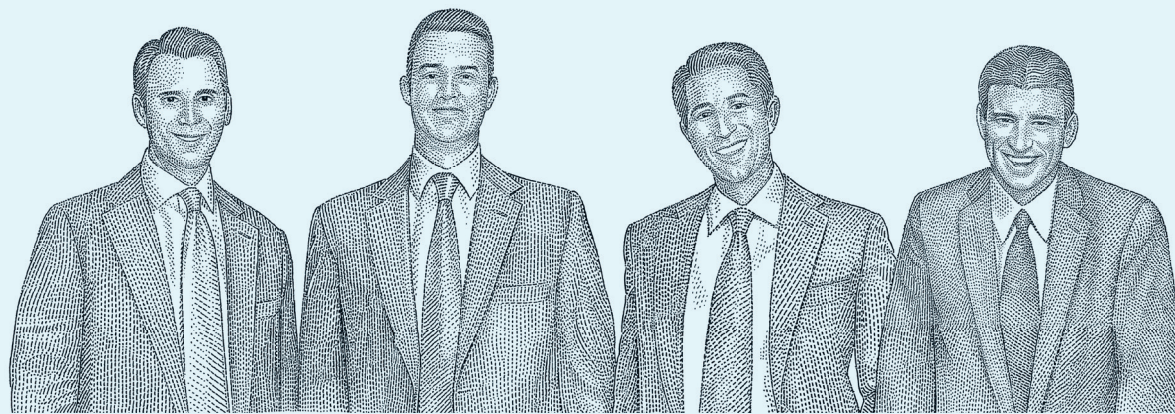
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What does the current “bear market playbook” mean for investors?

BY JAMES L. DINARDO, CLU®, CHFC®, CFP®, MSFS®



Left to right:
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FINANCIAL SERVICES EXPERIENCE

Kevin R. Luchetta, 19 years
Stephen A. Schwartz, 16 years
James L. DiNardo, 16 years

ASSETS UNDER MANAGEMENT

\$1+ billion

COMPENSATION METHOD

Asset-based fees and commissions (investment and insurance products)

PRIMARY CUSTODIAN FOR INVESTOR ASSETS

Accounts held at Northwestern Mutual Investment Services LLC, an introducing broker-dealer, member FINRA, SIPC. Accounts carried, and all transactions executed, cleared and settled through Pershing, A BNY Mellon Company, member FINRA, NYSE and SIPC.

PROFESSIONAL SERVICES PROVIDED

Financial planning, investment advisory, risk management and money management services

MINIMUM FEE FOR INITIAL MEETING

None required

MINIMUM NET WORTH REQUIREMENT

\$1 million

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I

n a previous article, my business partner Steve Schwartz discussed non-portfolio-centric ways in which an advisor adds value. I'll further his points by stating that advisors are worth their weight in gold when they guide clients through temporary bear markets, so that those clients can enjoy the long-standing advances of bull markets.

For that reason, Steve and I both suggest the notion of a “bear market playbook,” not only for the next potential bear market, but for all future bear markets a client investing for a 50-year time horizon can expect to endure.

Expect the Bear Market: Bear markets are painful for clients, regardless of their time horizon. But these markets are even more painful when clients don't understand that bear markets occur on a frequent basis.

In order to fully enjoy the fruits of the great bull markets, clients must understand that a bear market can and must happen. Of course, notifying clients that bear markets will occur is very different from predicting bear markets. Notifying clients about these markets merely provides them with a historical perspective. We do not believe that advisors can, or should, suggest that they can predict bear markets with any level of success.

Love the Bear Market: Bear markets should trigger a buying opportunity for any advisor/client relationship utilizing an asset-allocation strategy, coupled with a rebalancing strategy. If a client started on January 1, 2016, with a diversified portfolio of 90 percent equities and 10 percent fixed income/cash, due to the January market pull-back, the client might

equivalents are not securities that can be sold and turned into cash!

Expecting, loving, understanding and defending against bear markets, then, inevitably guides an advisor toward communicating to clients the valuable inverse of the bear: Expecting, loving, understanding and participating in the long-standing advances of bull markets. ●

“

The fruits of great bull markets cannot be enjoyed without the occurrence of bear markets.

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actually be closer to 85 percent equities and 15 percent fixed income/cash.

Advisors who guide clients with a strict, unemotional asset allocation and rebalancing strategy will constantly teach clients that short-term corrections are wonderful buying opportunities to purchase equities at a discount.

Understand the Bear Market: Advisors worth their fee are constantly holding the hands of clients and reminding them that bear markets provide volatility. Volatility, in turn, provides a risk premium for equities. That risk premium then provides the real rate of return (inflation-adjusted rate of return) historically found in equities.

Without the volatility and risk premium, equity returns would most likely track the lower-return profile of asset classes that merely track inflation. Genuine advisors should constantly remind clients that bear markets provide needed volatility, which provides the risk premium for inflation above historical returns.

Defend Against the Bear Market: Advisors that lead by planning ahead of portfolio advice will help their clients defend against the bear market by having 6 to 24 months' worth of their expenses (the burn) in cash or cash equivalents. And, no, cash

(BULL) MARKET HISTORICAL FACTS:

According to *Thenovelinvestor.com*, the S&P ends in positive territory 73 percent of the time, based on one-year increments. According to the same source, the S&P ends in positive territory 86 percent of the time for five-year windows and for ten-year time periods (1926-2013), 95 percent of the time. Advisors can add tremendous value by keeping clients invested and following an unemotional rebalancing strategy to reap the rewards that occur 73 percent, 86 percent and 95 percent of the time when the S&P 500 lands in positive territory (i.e., the bull markets). This is exactly where a good advisor proves his or her worth.

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Pioneer Financial's team of 20 associates/staff serve clients nationwide from their Park Avenue office in New York City. Kevin R. Luchetta, Stephen A. Schwartz and James L. DiNardo are wealth-management advisors and CERTIFIED FINANCIAL PLANNER™ practitioners. The practice is focused on assisting clients through comprehensive financial planning that includes asset management, retirement funding, risk management, estate preservation and distribution. ●



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