

## Solid Portfolio Lets You Avoid Market Blips

Written by Tim Decker, AIF®  
Sunday, 17 January 2016 00:00

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**Q: The markets didn't do well in 2015, so I want to know: Is there anything I can do now to get better returns from my portfolio?**

**A :** Not necessarily – if you've set up your portfolio correctly. There will be many down periods in the market. But historically, there have been substantially more up years than down. This is why some long-term investors have been handsomely rewarded.

For many investors, it's tough to do nothing after looking at statements from 2015, reflecting the first down year for some major indexes since 2008, when the S& P 500 dropped about 40 percent. Last year, the Dow Jones Industrial Average, a basket of 30 large companies, declined 2.2 percent, while the S& P 500 declined nearly 1 percent. And on Jan. 4, the first trading day of 2016, the Dow dropped 1.6 percent.

If this continues, it could signal a pause in the long-term upward trend for stocks, meaning opportunities for investors who understand that lower prices are a godsend for buyers.

History has demonstrated that if you're patient, over time you can reap substantial rewards from financial markets, assuming that you've invested wisely. Of course, many investors don't because they lack a well-thought-out asset allocation – a blueprint assigning different proportions of their money to different types of investments. The idea is to lessen the risk of damage from one type of investment, such as stocks, by holding others that are unlikely to decline at the same time. These other investments, such as government bonds, can provide substantial peace of mind during stock market declines.

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People who have invested this way can sit back when the stock market undergoes setbacks. Yet sitting idly and waiting for brighter days to come isn't easy for many because most people are wired to take action to solve problems.

This instinct is only human. However, investing successfully for the long term (the only way to go) most often means doing nothing when others are falling victim to their emotions and doing substantial harm to their portfolios. Simply stated, don't just do something, sit there. It sounds illogical but isn't because that's usually what you should do – if you've invested properly.

The smart move to make during most down periods is the one you should have already made: building a solid asset allocation that reflects your realistic goals and risk tolerance, in line with a sound overall financial plan. Then you can relax and not worry about market declines.

Yet doing nothing takes discipline, especially while others are frantically making changes to their portfolios, often to their detriment. These people don't know that discipline is a key ingredient for investing success. The figures in your account statements during down periods can work themselves into your subconscious, directing the voice in your head to say negative things that might prompt you to foolishly sell at a loss. When people do this, they often sell low after having bought high, a recipe for disaster.

Investing discipline means being committed to your long-term plan – staying on the ship, waiting for the wind to return to market sails.

When you read about the market's crippled start to 2016 and the sad forecasts for the year, instead of damaging your portfolio, have a close look at your asset allocation to determine its capacity to absorb shocks. Once you're confident it can do this, stay calm and let time and global capitalism work for you. Maintaining your discipline involves knowing the difference between history and current headlines.

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