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HOW TO OVERCOME MARKET-DRIVEN UNCERTAINTY

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Stock market selloffs and periods of heightened volatility tend to be unpleasant experiences for investors. The source of this distress stems from the uncertainty that investment losses introduce into our personal finances.

You can eliminate or at least limit much of this uncertainty by establishing an investment framework that suits your particular needs (or evaluating your existing framework). What do we mean?

Start with Your Goals | The first step in establishing an investment framework is to determine your financial goals, as well as their associated priority levels and time horizons. Common financial goals include saving for retirement and children's educations, but can also encompass charitable initiatives, vacation properties, or caring for special-needs adults.

If you've been pursuing an unstructured approach toward achieving your goals, then this step will alleviate a great deal of uncertainty by formalizing your expectations on explicit and measurable terms.

Create a Blueprint | Develop a plan that breaks each goal into its required contribution rate (as in, how much you'll need to save periodically) and target rate of return (as in, how much your investments are expected to earn periodically). These two figures can be determined by working backward from the financing and timing needs for your goals.

A higher contribution rate means you'll need a lower target return, and a higher target return means you'll need a lower contribution rate. Be careful to use realistic target return assumptions, even if this means you'll need to contribute more savings to meet your goals.

Set the Foundation | These target return assumptions serve as the starting point for determining your investment mix. A lower target return could potentially be achieved with traditional lower-risk assets like high-quality bonds and defensive dividend-paying stocks, while a higher target return could necessitate exposure to a full range of stocks and more aggressive parts of the bond market.

While your expected return is a key consideration at this stage, it's also essential to make sure your investment portfolio is not so heavily exposed to riskier assets that you can't stomach periodic selloffs and bouts of volatility. If your target return requires that your *risk tolerance* be higher than your *risk appetite* then you probably need to adjust your plan to decrease your return expectations and increase your contribution rate. Higher risk generally equals higher return, so lowering your portfolio's risk profile means accepting lower returns.

Put Setbacks into Context | All investments that are subject to the market's whims—low-risk and high-risk alike—undergo price declines from time to time.

Rather than creating cause for concern, these setbacks offer an opportunity to measure your progress toward your goals. It's much more comfortable to gauge your progress when your portfolio has been growing, but the real test of a plan's viability is whether it remains on track after a downturn.

The good news is that if you're still on track to meet your goals after a selloff then there shouldn't be much room left for uncertainty.

One last word of wisdom: a thoughtful framework needs to be accompanied by a thoughtful frame of mind. You could have an optimal plan to meet your goals and remain on track at the bottom of a steep selloff, but still find yourself troubled over losses. That's understandable.

Keep in mind that even deep losses historically have only been temporary—as long as investors have the patience to stick to their plans until the eventual recovery.

The blueprint you use to achieve your financial goals will be unique to your needs and priorities. A financial advisor can help ensure that your blueprint starts with a stable foundation.

For more information, please call **407.585.1160**

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