This Is Why You Hire Us: The ABCs of Wealth Management

BY ROBERT KLEINSCHMIDT ON *FEBRUARY 12, 2016*

A. Keep Calm and Carry On

The tumult in global equity markets has been so sudden and so violent that it has left many observers breathless. “What in the world,” many investors want to know, “is going on?”

The answer? No one really knows. This admission is not a bad thing. Among other salutary characteristics, it has the benefit of being true. Anyone who did know would be incomparably wealthy, beyond the wildest dreams of sheiks, oligarchs, and real-estate developers or media magnates seeking the Presidency. Markets have their own logic, and that logic can and does change over time: What may have been true yesterday is no longer necessarily true today. So be careful about seeking and accepting explanations. Indeed, hold onto your wallet when someone begins to explain to you the movements in the market.

What’s an investor to do? Here, we do have something to say. Let’s begin with, “Don’t panic.” Market fluctuations, even violent ones, come to an end. When they do, investors who have panicked will not be able to bring themselves to get back into the recovering market. This happens time and time again, and it is the primary reason why most investors fare far worse than the market averages over time.

Make no mistake: There is psychic income to stopping the bleeding. People do feel better (and smarter) being out of the markets during these downdrafts. These feelings may well outweigh the opportunity cost that inevitably will be paid when the market turns. But, if the real reason for investing is to preserve capital for future generations, and not to feel good about yourself and how smart you are, these opportunity costs are too great to bear.

B. Babies and Bathwater

When markets collapse, stocks get sold indiscriminately. This means that some opportunities emerge in high-quality companies in troubled market environments, companies whose lofty valuations usually prevent value investors from owning them. Indeed, sometimes, because these larger, high-quality names are more liquid than the average stock, they get hit hardest in the sell-offs. The babies go out with the bathwater. When this occurs, investors have the chance to upgrade portfolios with higher-quality positions. “You make all your money in bear markets” is something I have often repeated to clients, and it is true. What you buy when markets are weak is what generates the returns when markets are strong.

C. Don’t Get Mad at Your Money

It is awfully easy to get mad at the market for going down every day. Don’t give in to that temptation. Better to think of it this way: As long as you haven’t sold anything in panic, you own the same slice of corporate America today as you did six weeks ago, when the market started to fall out of bed. Only now, because fees are based on asset values, you are paying less for the privilege. Nothing has changed so much in the past several weeks in the underlying fundamentals of the companies you own. Perception has changed, to be sure, but perception does not pay dividends or generate free cash flow. Fundamentals do. Have fundamentals really changed?

To remain dispassionate in the face of stressful and highly emotional market and mood swings – that is the main reason why you hire an investment advisor. I mentioned this above, but it bears repeating: Left to their own devices, many investors simply cannot divorce their money from their emotions. They often become so shaken by short-term effects that they pull out of the market at the bottom, after the damage has been done, and cannot be steered back into equities until after a long rally in stocks restores their confidence. This is, perhaps, the chief reason many portfolios fail to meet their investment goals over the long term.

It’s easy to fold your tent during market routs. But that’s why you hire us. You don’t pay experts to do the easy thing. You can do that on your own.
But, in these volatile times, we don’t think you should.

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