Greatest Challenges Investors Face Today

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The Three Greatest Challenges Investors Face Today

Today's investors face many challenges:

- The ever-changing world economy
- The speed at which change occurs
- The knowledge and expertise needed to understand and interpret how what is happening affects investment portfolios
- Knowing when changes need to be made to continue meeting their goals.

While many investors are aware of these concerns, this white paper will focus on the three challenges today's investors should be addressing, yet many are not:

1. *The Longevity Effect*
2. *Staying on Course by Managing Your Emotions*
3. *Going Beyond Your Risk Tolerance*

Challenge #1: The Longevity Effect

Asset managers conduct research, interviews and statistical analyses of markets, companies and investing trends to determine what they should include and exclude from their clients' investment strategies. These are the facts and figures that go into building a successful investment strategy, but an investment portfolio is not a static strategy that remains the same. The manager is constantly managing both risk and opportunity.

From time to time, adjustments must be made based on market conditions, the global economy and the individual investor's needs. There is no such thing as a "set it and forget it" philosophy when it comes to investing. A portfolio should be monitored and adjusted daily to ensure that it is still on track to meet the investor's goals. There are also some intangible factors which must be taken into consideration when rebalancing a portfolio:

√ **The Longevity Effect:** Many people now live well into their eighties or nineties. This has added an important consideration, known as the longevity effect, into investment planning decisions. At one time investors simply moved their investment portfolio into so-called "safe" investments at retirement and started making withdrawals. They then watched in horror as their life span increased while their portfolio decreased. Nobody wants to outlive their money, so decisions must be made which will accumulate and preserve a specified amount, while allowing the investor to maintain a certain standard of living.

Instead of just looking at bonds or certificates of deposit, investment alternatives for older investors can still include asset classes such as equities and commodities. A longer timeframe also allows the investor more time to ride out any market swings. A professional asset manager not only provides advice on where to invest the money, but also when to make withdrawals so investors can live out their retirement years with sufficient cash reserves.

√ **Reality Events:** Investing is never done in a total vacuum. Even the best-laid plans can be led astray by reality events. The primary money earner might die or become seriously ill, a couple could divorce, children go to college or get married, or businesses become insolvent. Your investment professional should be made aware of any life changes or events to ensure changes are made to your portfolio to stay in line with your goals and timeframe.

Challenge #2: Staying on Course by Managing Your Emotions

Emotions figure prominently in many of life's most important decisions, such as where to live, who to marry, or what job to take, but decisions should never be made based solely on emotions. This is especially true when it comes to investing. Managing your emotions can truly be a challenge for investors in both up and down markets. We are all human, but we cannot let our emotions take control when we are making investment decisions. There are five emotions to be aware of when it comes to investing:

1. **Fear:** We are afraid of risking our money, so we don't take reasonable risks when the time is right. Many investors have difficulty asking for help, or are afraid to admit they don't understand. A good investment advisor creates an environment where clients are not afraid to ask for help.
2. **Uncertainty:** We don't like not knowing how things will work out. Investing would be so much easier if we could predict what the stock markets are going to do tomorrow, but that is not the way the market works. A portfolio should be designed with a given objective in mind, and constantly monitored to ensure that the goal can be met given the current market conditions.
3. **Doubt:** It is hard to know if a decision is the right one to make, and when to make it. That is why it is important to understand market and investor conditions, and rebalance the portfolio when necessary. The investment advisor should have a solid understanding of the markets as well as the client's needs.

4. **Greed:** Some investors come to enjoy too much of a good thing when the markets are doing well. When the markets go down, they want to continue making huge gains and take imprudent risks to get them. It is possible to have too much of a good thing. Like the Kenny Rogers song says, though, "You've got to know when to hold 'em, know when to fold 'em, know when to walk away, and know when to run."
5. **Pride:** We all like to think that we are as knowledgeable as the next person about managing our money, so we don't find a professional advisor who can take away the emotions of investing and focus on the facts. It is important to share information with a financial advisor, so decisions can be made based on what is best for you at this particular point in your life.

The Fudge Factor: The Fudge Factor comes into play when emotions start affecting investment decisions. Unfortunately, an over-reliance on emotions can lead to an over-reaction to what is going on in the market. A huge uptick might make investors think times are good, so they invest a lot of money at precisely the moment when prices are at their highest instead of looking for investments that are a good value. As time passes, and the investments don't perform as well as hoped, doubt sets in and the investor feels the need to "do something." If the market experiences a sudden downturn, the urge is to sell everything which only serves to lock in losses and further decrease confidence.

Some investors form an emotional attachment to their investments, and hold onto them for far too long. They hope for higher returns on their favored investments, only to watch their profits evaporate. Meanwhile, they might have ignored another opportunity which could have outperformed their favorite.

Investors Need to Stay on Course: On airplanes today, automatic pilot makes it much easier to navigate. To some degree, the pilot is able to set the destination, perform the take-off and landing, and the plane takes over from there. But the pilot is still watching and in control. There are factors like wind, rain, turbulence, air traffic and mechanical difficulties that can affect the plane's ability to stay on course. The pilot is continually making course corrections during the flight in order to ensure that it arrives at its destination safely and on time.

That is similar to what investment advisors do to help their clients control their emotions. Investors today can't simply put their portfolio on automatic pilot, but they should not act on every emotion either. An asset manager monitors daily factors like changes in the economy, fluctuations in world stock and bond markets, and client reality events to make decisions based on information, not intuition.

Challenge #3: Going Beyond Your "Risk Tolerance"

When potential investors visit a financial advisor for an initial meeting, the first question they are often asked is, "What is your risk tolerance?" This can produce a sense of fear, as it must seem like a very bizarre question indeed. They may be thinking to themselves, "I have no tolerance at all for losing my money. I worked hard for it and would like to keep it. Why are you asking such a strange question?"

Yet the potential advisor persists in following this path. Often there is a series of questions to decide whether investors should be "conservative" or "aggressive" in their investment strategy. Quite the show is made of using this tactic, and it almost makes investors believe that everything is somehow magically going to be okay now that the advisor has determined their risk tolerance level. That is, of course, until something goes wrong because this strategy is almost literally just a throw of the dice. Either the portfolio fails to meet the investor's anticipated goals because it was not aggressive enough, or the value of the underlying investments falls dramatically as the market changes.

Investors may contact their advisor to express their dismay, only to be told that the portfolio was based on their risk tolerance. In the past ten years, we have witnessed many dramatic twists and turns in the stock market. When times are good and the market is going up, it really is not hard to find an investment strategy that creates a positive return. But, when the market takes a stomach-wrenching drop, it can be very difficult to stay on course.

That's because "risk tolerance" really is not a strategy at all; it is a buzzword that lazier financial advisors rely on to convince prospects to invest with them. Once they determine your so-called tolerance level, they plop your money into a pre-designated blend of investments and let it sit - so much in bonds, so much in stocks, so much in mixed. After that, very little attention is paid to the portfolio unless the investor questions the strategy or experiences a sudden change in tolerance.

The truth is that there really is nothing tangible or quantifiable about your risk tolerance. Can anyone honestly say that they are 100% okay with losing money, 90% okay or even 80% okay? No. Starting with this question only leads to a series of poor investment decisions. In fact, the answers you provide to these vaguely-worded questions might negatively affect your portfolio if they lead to a strategy that is not really in line with your goals. So, if you are looking for an investment advisor and someone asks about your risk tolerance, maybe you need to keep looking.

The first place most investors turn for help in managing their financial portfolio is a brokerage firm. Typically this is a branch office which is associated with a larger company. Representatives may be under severe time constraints or sales quotas to have so much money “under management.” This is where the idea of risk tolerance was developed.

It is part of a carefully derived sales pitch which is designed to drive unsuspecting investors into a predetermined investment strategy. With this philosophy, it is possible that a married couple with two children on their way to college could end up with a similar investment breakdown as an older empty nest couple who are considering retirement, because they both said they had a low risk tolerance.

How to Overcome the Three Investment Challenges Recap:

1. **Longevity:** Make sure your financial strategy takes your longevity into consideration. Use longevity to your advantage, and make sure you don't outlive your money!
2. **Emotions:** To keep emotions at bay, it is best to use a fact-driven process to make buy and sell decisions. Use your head when it comes to investing, and leave emotions to your heart!
3. **Risk Tolerance:** Look for investment advisors who ask, "What do you want to accomplish, and when do you want to accomplish it by?" A pure asset manager is independent and focuses on building an investment portfolio that meets your precise needs at a given point in time.

Arbor Capital Management - A Pure Asset Manager

Arbor Capital Management is a pure asset management firm which has one overriding goal - to substantially grow its clients' portfolios. We focus on wealth preservation and growth as well as on relationships, clarity, service and performance. Our clients include high net worth individuals, family businesses, investors approaching retirement and institutions. We provide asset management services on a fee-only basis without outside influences of any kind…and that's pure.

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