

How to Manage your Portfolio

By Gary Case

As I write this column, the financial markets have suffered through the second quarter of the year with many indices either flat or negative performance year-to-date. The first couple of weeks in July have brought more downward pressure on stock prices, and many of us wonder what to do about our investment portfolio.

My answer to myself and my clients is generally to go against the urge to (over)react to recent market gyrations. This is not to say that doing nothing is always the correct response to market movements, but doing something isn't required at every rise and fall of your portfolio value. In prior columns, I have mentioned that an Investment Policy Statement (IPS) can help govern and optimize your portfolio performance over time...indeed; your IPS ought to include a section on how you will react to various factors that can affect your ultimate investing success. Further, your potential actions with respect to market changes will depend on whether you are accumulating to generate future income as opposed to relying on your portfolio to generate both current and future income.

As a broad generalization, the time to be fully invested is when the consensus in the news is that markets are in poor shape and are expected to get worse. To illustrate my point, on the day generally regarded as the bottom of the last bear market, headlines in USA Today said something to the effect that the markets were in terrible shape and no bottom was in sight. As I have reviewed recent market analyses of those I view as intelligent and trustworthy, I sense an excitement that stock valuations are nearing a level that invites an infusion of investment capital. This is almost exactly opposite of the sentiment most of us feel when markets (hence, our portfolio's value) declines.

Conversely, when the popular financial press touts markets that are poised to move ever higher, raising some cash is usually a good idea. There are lots of techniques and methods to manage and apply leverage to your portfolio. In my mind, settling on a strategy and having the discipline to follow that strategy is quite possibly the best avenue to investment success. Your financial planner can assist you in developing a plan that is customized to your particular situation. Properly managing your behavior during market extremes can add a great deal of value to your portfolio over time.

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