



MONEY DUE REWARDS:



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A Valuable Strategy

Do you have a financial advisor? If so, try to be kind to him or her, because it is currently not the best of times for many financial planners and advisors. Not only have the world's investment markets been going the opposite way to what most of us would prefer, but this has undoubtedly caused a lot of stress to both investors and advisors alike. Depending on the business model being used, it may also mean a significant loss of revenue for the advisor, and that can be uncomfortable too.

Ironically, this is also a time when a good financial advisor can really make a difference, and this works in a couple of different ways. Let me illustrate by way of an example.

Rachel was 40 years old when she first consulted her current financial advisor Ted, with \$100,000 to invest. At their meeting, Ted ran through a "risk profiling" questionnaire, and determined that Rachel was a "prudent" investor. As a result, when Ted made his initial investment recommendations, the recommended assets consisted of about 40% in defensives – fixed interest and cash investments, and with the balance in growth assets such as property and shares. At first, Rachel didn't like the idea of defensive assets. She just wanted shares, since she had heard that they were performing really well. Eventually, however, she allowed herself to be persuaded.

Unfortunately, the next 12 months saw the investment markets crash, and when it was time to see Ted again, the growth portion of Rachel's portfolio had fallen by 50%. Fortunately, the more defensive assets had broken even, and there was also some income, so the value of the portfolio was \$75,000. Rachel was shocked to find that her assets had fallen so much, and initially wanted to sell everything and spend the proceeds - before it was all gone. She was a little comforted when Ted told her that if she had invested 100% in shares, as she had originally wanted to, the portfolio would now be \$50,000 instead of \$75,000.

Following some sensible and soothing words from Ted, Rachel decided to take his advice, which was to restore the portfolio to its original 60/40 ratio – a process called "rebalancing". As a result, with Ted's assistance, Rachel sold off some \$15,000 of defensive assets, and invested the same amount in growth investments. It was the exact opposite of what Rachel felt like doing, but Ted can be a pretty persuasive fellow when he needs to be.

A year later, the dreadful market slump was over, and the investment markets had rallied by 60%. Not enough to recover their former heights, but a good recovery nevertheless. Rachel arrived at Ted's office to find that her portfolio had recovered the lost ground, and now stood at \$107,000. Not a fantastic return over the two years, but much better than the situation a year previously.

The point here, is that Ted's advice has proven to be quite valuable to Rachel. At 42, she now has \$107,000 invested, whereas if she had followed her own inclinations and spent the money, she would have nothing. Even if she had kept the portfolio, but had not followed her financial advisor's advice to rebalance it, she would now only have \$98,000 – \$9,000 worse off.

In these uncertain times, it is easy to be angry at your financial advisor. In my view, you will be better off taking careful notice of what he or she is saying – even if it is the exact opposite of what you really feel like doing.

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