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Speeding and Investing: Know your Limits

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I'm amazed with how fast some people drive. I'm talking about drivers around here, not just the Quebec drivers on the NY Thruway who treat KPH and MPH as the same thing. I often pull over on the way to town to let speedy drivers pass me. I question if their extra speed is worth the extra dangers and if they're paying attention to either.

I see similarities between speeding and investing. Instead of taking a thoughtful, measured approach, people sometimes load up on riskier investments without understanding the additional dangers they are incurring. Perhaps they feel like they are late and that they need to catch up to an important goal, such as retirement. They might believe they're getting there faster, but that belief changes when something goes wrong.

The reality is that there are a lot of things that you can't control when you're driving in a car or investing in the markets. Have you ever hit a patch of black ice? It's too late to slow down. You feel powerless. Similarly, loading up on an investment, even just stocks in general, can jeopardize your financial safety when a sudden change happens. Dot-coms, real estate, and gold are a few examples of seemingly good ideas that have hurt overly aggressive investors in short periods of time. How will you feel the next time your big investment bet drops 40, 50, or even 100 percent? You might feel like you've hit black ice.

With small behavioral changes we can learn to take safer paths. I understand that it may not be practical or even necessary to drive 25 MPH all the way to town. It is practical however to start building a financial plan by assuming the minimal, or 'ideal,' amount of investment risk that you would like to have. That's a decision based on your feelings of safety and not somebody's market prediction. You can then consider moving up the risk ladder until your plan is balanced according to your specific goals and values. You might just find that any extra investment risk (speed) doesn't actually buy you much in terms of your life goals.

If you decide to hand the risk controls to somebody else, you may see your risks increasing beyond your comfort level. That's like being a passenger in a car with a jumpy driver – a jumpy driver who is now in charge of your financial future. That's scary and dangerous. Conversely, with an objective financial plan in place you can be in control of the amount of investment risk you're taking. You'll reach your desired destination and you're more likely to get there safely.

My advice will always remain the same: focus on your plan, your goals, and on the things that are within your control.

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