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CAPITAL MANAGEMENT

Lifeboat Drills and Investing

By Jim Mirenda, CFP®

Domestic stock markets are on track to end the year at or near all-time highs. The media and the financial prognosticators will avow their reasons for this milestone. And then they will predict what is going to happen in 2017. I remember one talking head several years ago say that the market rally "wasn't really real". I thought that odd. I don't trust market forecasts and I don't make predictions. There is no evidence that anyone can predict what the future will bring; in financial markets, the Super Bowl, or elections. That said, it's clear from history that investment markets are volatile entities. And there may be no better time to prepare for a drop in markets than when they are at all-time highs.

Why prepare for a decline in assets? Because at some point equity markets will reverse direction - even if just temporarily. When and by how much? Again, nobody knows. But when they do drop a solid plan can help you decide the steps, if any, that you should take. This will ensure that you can stay on track to meet your personal goals. Without a plan it's too easy to react emotionally to the news or to the crisis du jour. Those unguided emotional decisions are usually big mistakes.

I find it remarkable that on the morning the Titanic sank the Captain cancelled lifeboat training drills. Historians don't know exactly why but he obviously decided that planning was unnecessary. Things were going well for the voyage and the weather was clear. However, within a short time his ship was sinking and neither the passengers nor the crew knew what to do. The outcome was historically tragic. And while striking an iceberg might not have been avoidable (as nobody predicted it), the lack of disaster preparation is indefensible for a ship Captain.

Similarly, you can't control what will happen in the financial markets (like when they will hit an iceberg), but you can be prepared for any big changes that come along. Preparation is the essence of planning.

The sad reality of the Titanic can be attributed to hubris: the owners and the Captain felt that their big, beautiful ship was an exception to maritime physics. They only had enough lifeboats for one third of the passenger. But really, they thought, the lifeboats weren't necessary. They thought, or bet, that the ship couldn't sink. It was a 'different' ship. That's what some financial forecasters said about the stock market in 2000 and 2007; it was a 'different market this time'. Remember those periods of euphoria?

Please don't read this article as a prophecy of impending market doom. It is not. Remember that I don't make predictions. Nor does it imply that you should ever abandon ship when the invest seas get rocky. It is simply a recommendation to count your stock market blessings today and to prepare now for the uncertainties inherent in investing, the bad and the good. It's never too late to plan; so long as the ship hasn't hit an iceberg. Regardless of your port of call, ignore the market forecasters and focus instead on your plan, on your goals, and on the things that are within your control.

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