Contrasting Investment Strategies: The Importance of Finding the Right Financial Advisor

By

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Two investors at different stages in life with dissimilar financial pictures present a unique opportunity to study contrasting investment strategies. Most people, whether close to or in retirement, will identify with one of these investors to some extent. Our first investor is Ms. Smith. Ms. Smith is retired, in her 70s, has no debt, and has saved a substantial nest egg during working years. Her income from Social Security, pension and 401k exceeds living expenses to the extent she can save even in retirement. The probability of Ms. Smith outliving her assets is virtually nonexistent, even when considering the possibility of requiring nursing home care later.

Ms. Smith enjoys an active social life. One of her favorite topics at social gatherings is the stock market; she can clearly articulate details of global financial markets. Her employment in upper management during working years required her to form high-level corporate decisions, a skill set she continues to use in forming an investment strategy. Still, she recognizes the need for objective financial advice and enjoys a spirited conversation with an informed adviser.

Because of her knowledge and background, Ms. Smith is inclined to invest in high-risk growth stocks. Given her large financial base and lack of need to take risk, a low-risk defensive strategy, centered on the bond market, is more appropriate for her. Although, such a strategy contradicts her high-achievement nature. Ms. Smith enjoys the thrill of the hunt.

Ms. Smith ‘s challenge is to transition her thinking from accumulating capital into preserving capital. She has found this transition more difficult than she imagined. As her financial adviser, I periodically remind her of this mindset and encourage her to enjoy spending her bounty, as opposed to taking the risk required to make it grow.

Mr. Jones is our second investor. He is employed, in his mid 50s, has several years left on his mortgage, and has saved little for retirement outside his employer’s 401k. His income barely covers living expenses and leaves little for retirement savings. Plus, he is supporting a family from a prior marriage. Mr. Jones’ retirement outlook is dim.

To compound the problem, Mr. Jones often speaks of how dark the world looks, given the divided state of the US political system. He is not knowledgeable about the US financial system and tends to overlay his gloomy political outlook on the stock market. His fears culminated with a bad experience in 2008 when the stock market fell off the cliff. In a panic, he sold all his retirement stock holdings at the worst possible time and missed the huge market upturn after the crisis passed. His current investment strategy is ultra conservative, with all of his retirement funds invested in low-yielding T-bills.

Mr. Jones' unfortunate financial situation has forced him into taking one of two courses of action: He either stays with his current conservative investment strategy that gives him no chance of retiring, or he bites the bullet and invests aggressively in the stock market with no guarantee of success. His dilemma is compounded because he does not want to work until he dies and is not willing to reduce his lifestyle. He reluctantly admits that upping his risk is his only choice for retirement.
When investing in the stock market, Mr. Jones must be mentally prepared for periodic downturns that nobody can foresee. An aggressive investment strategy requires time to work, which would require him to resist the urge of pulling the plug when the market takes a dive. Although difficult, he should not watch his account every day because the inherent volatility would cause him too much anxiety.

A better approach would be for Mr. Jones to look at his account only occasionally, but even then with the mindset it would not upset him. A long-term, patient view would not insure success, but it would increase the possibility of success. Based on his past experiences, getting caught up in the daily ups and downs of the stock market could cause him to abandon his long-term strategy with an ill-advised knee-jerk reaction of selling during a downturn—a mistake he cannot afford to repeat.
Although strikingly different, Ms. Smith and Mr. Jones share a common issue. Both investors must alter the way they frame their particular situation. Ms. Smith should focus on implementing a defensive strategy, even though she is inclined toward taking an aggressive approach. On the other hand, Mr. Jones should adopt an aggressive strategy, although his inclination is to proceed defensively. Each person's background and personality have brought each to this crossroad.

Discipline and a commitment to a long-term strategy with the help of an objective adviser is the key to both investors enjoying their respective retirements.

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