

Lynn's Top Five Creating Investment Portfolios Tailored to You

By Lynn Ballou, EA, CFP

If I could create a basket of diversified investments, shake it up, and then toss it on the table, and say to you "Pick your investments!" How would you know what to choose? Would you grab natural resources investments? Long-term international value investments? A couple of preferred stocks? A muni bond or two? Maybe some CDs?

There is no perfect answer. But nonetheless every day we are all making decisions about what to put into our portfolios, whether they are at work in our 401(k)s, at a brokerage in our self-managed accounts, or in accounts that we have with our investment advisor representatives. These decisions have important short and long-term ramifications, and so deserve an appropriate amount of attention.

In my experience there are a few caveats that may allow us to create portfolios that can pass the "sleep at night" test...in other words, even though we don't have a crystal ball, portfolios that have been thoughtfully crafted to work towards meeting expectations in appropriate time frames without keeping us awake at night tossing and turning with worry. Here are a few of the more important ones to think about.

1) **PLAN MACRO, CHOSE MICRO** – Your portfolio concept is basically going to start out like a big lump of clay. How you style and whittle will be based on your vision of what the portfolio's job is --- yes, it's job! For example, if your 401(k)'s job is to feed you when you retire, and you aren't retiring for many years, then you can take the long-term view and focus on growth, if you can handle the volatility. Conversely, if you are retiring soon, then you'll need to design a portfolio that can begin feeding you while still providing growth as a hedge against taxes and inflation. So, knowing this, you can begin the micro construction of what goes into the portfolio: in the first case probably not much in the way of fixed income investments whereas in the latter case, a much bigger weighting would be more appropriate. Continue to go micro: which investments to pick? That's

where you will want to do research about asset classes that work best for you in your situation and time frames. Then keep going micro by digging deep into which investment vehicles are the most appropriate.

2) **UNDERSTAND WHAT YOU OWN, OR DON'T OWN IT!** - . Everywhere we turn, someone is advertising or presenting what they hope are persuasive arguments as to why their "deal" is good for you! Assuming that the investment appears to fit your needs (see above) and your risk tolerance levels, then have those folks who manage the asset explain it to you until you understand it so well that you could explain it to someone else if you needed to – most importantly yourself! If you don't understand it, then don't just say,

"Well, I'm too stupid to get it, but you get it so it must be okay!" Ahem! You are not stupid --- they either haven't done a good job of explaining it or maybe your antennae should be up because maybe it's not such a great deal for you after all! If you understand the investment, then you will understand the risks it could pose. This is important because not even good investments go up all the time. If you didn't really understand the investment in the first place, you will feel very victimized and betrayed if the investment under-performs your expectations. If you did understand it, and the investment underperforms, you are less likely to be surprised, certainly not shocked, and not so emotionally charged as to be unable to make an appropriate decision about what to do next.

3) **IF YOU DELEGATE, STAY INVOLVED.** Very few of us have a background in finance or investment management, so we often chose an investment advisor to guide us with regard to portfolio management decisions. Should be easy, right? Once you pick a good team, hand over the reins, skip out the door humming to yourself, and maybe check in once in a while to see how things are going, you're good, right? NOT! When you are interviewing potential advisors, you will ask all the obvious questions about their background, their core values, speak to a few current clients, and find out if their style matches your need. However, one very important issue to

discuss is the review process. How often will you receive statements? Will you receive confirmations of all the actions they take in the portfolio? How frequently will you have an in-person meeting with your investment team leader? Who will sit down with you and how often to review performance reports, diversification analysis and comparison to market benchmarks? And most importantly, find out who will be responsible for reviewing your investment policy for each account to be sure that your needs and your portfolio's make-up are still properly aligned. Make sure your advisor has a proactive system to be sure you stay in touch with each other and on top of all these issues.

4) **TAXES: IMPORTANT BUT CONGRESS CAN CHANGE THE LAWS, SO...**if you design your portfolio solely based on today's tax laws, you are setting yourself up for problems. When you pick an investment, do an analysis that involves stripping away all the tax benefits. See if that investment still makes sense and would be a good investment without the tax incentives. If not, you should probably take a pass on it. Remember that by and large, tax benefits exist at the whim of Congress. Need I say more?

5) **DON'T PANIC! INVEST INTELLIGENTLY AND REGULARLY.** For some reason it's so easy to talk ourselves into buying that dress or electronic toy on sale. Why is it so hard to talk ourselves into buying high quality growth stocks when the market is down? One loses most of its value the instant we walk out the door. The other (though always subject to risks such as loss of principal) may likely appreciate nicely and contribute in spades to our happiness later in life. Stay focused on your long-term goals and although you should intelligently filter the short term noise, don't let it knock you off your path. Stay calm, using the process described above, making subtle and timely course revisions.

When markets are struggling there's a lot of talk, focus and scrutiny that's put on portfolios. When markets are thriving, not so much. Remember that your portfolio needs your consistent attention and care in ALL markets. I really hope this will help you kick start that commitment and process.

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