INVESTMENT PLANNING COUNSEL'S

Intelligent Investor

Live *your* dream.

What would Warren Buffett do?

Today's market activity can shake the confidence of even the most experienced investor. Each day seems to bring more bad news, and it is hard to endure the effects on your portfolio. More important, during these difficult times grave mistakes can be made to your long-term investing strategy. Now is a good time to sit back and ask yourself about your approach.

To invest successfully over time takes many attributes—the most significant being a firm understanding of why we are investing our money in the first place. You see, investing is really just a means to an end. We don't want to invest or put our money at risk—we want what the money will ultimately provide for us. That goal is somewhat different for each investor; however, most will agree that we invest to provide freedom—freedom to work or not work, freedom to buy what we need, and freedom to make the people we love more comfortable. That is really why we invest.

"This cycle of buying high and selling low will continue to erode investment capital making that dream of financial independence just that—a dream."

The past few months have scared many so-called investors out of the equity markets. Money has been taken out of stocks and mutual funds and placed in bank accounts and even hidden under mattresses. But no matter where you keep your money, some risk is involved. A bank account may not seem risky to an unseasoned investor since the principal and interest rate (albeit a low one) are guaranteed. However, the risk is not in the loss of principal but in the fact that after tax and inflation your money will never really grow. As a result, you may never achieve the financial freedom that you dream of.

Unsophisticated investors are reactionary, much to their financial downfall. When high-tech stocks were booming, they wanted to take their money out of safe investments and buy stocks, and when the tech bubble burst they wanted to move their money out of tech stocks (near the bottom) and into cash. If they had done this, they would have missed out on the next big economic upswing that occurred in the mid-2000s. This cycle of buying high and selling low will continue to erode investment capital making that dream of financial independence just that—a dream.

So what should I do?

The best way to invest is to emulate someone who is a successful investor. Arguably the world's greatest investor is Warren Buffett, currently the second richest man in the world. Mr. Buffett gave us one of the best quotes on how to invest successfully:

> *"To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insight, or inside information. What's needed is a sound intellectual framework for decisions and the ability to keep emotions from corroding that framework."*

So ask yourself: what is the intellectual framework for my investment decisions and how can I keep emotions from eroding them?

Right now, Mr. Buffett is following his intellectual framework with his other famous quote:

> *"We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful."*

While the marketplace is panicking, Mr. Buffett (and Berkshire Hathaway) is following his intellectual framework and buying companies at good prices, as are the professional money managers who we employ to manage your money. They are using this opportunity to take better positions in very solid companies. It may take awhile to pay off, but they are sticking to their framework as well.

So how do you build your own framework?

To help you build an intellectual framework for investment decisions, we strongly recommend an Investment Policy Statement (IPS). This document explains why you are investing in the first place. Think of an IPS as a roadmap to guide you through your investment decisions.

The IPS first establishes the extent of your experience with investments and documents and the risk you are willing to take with your capital. It sets up the time frame within which you wish to invest and the purpose—income, growth, etc.

The IPS then identifies the different types of risk in portfolio management and how your portfolio will be managed to offset them—asset allocation, geographic allocation, style allocation, efficient frontier, tax effects, and market conditions.

Finally, it develops an investment strategy based on this information and your stated objectives: when and why you will rebalance your investments (buy and sell), what investments or investment managers you will use to manage your portfolio, and how often you will review it.

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How does an IPS help keep emotions from corroding the intellectual framework you have just set up? Before any new investment can be completed or changes to the existing strategy made, a new IPS must be developed. Only if that new investment is suitable in the overall strategy will it be made. And only if changing the current allocation is in line with stated objectives will a change take place. This process will keep you disciplined in your intellectual framework and always give you time to reflect before making rash emotional decisions based on short-term events in the world or the market.

We think that this is the right time to establish or re-establish a framework for investors, given that many of them, worried about the current market situation, are tempted to make rash decisions.

If you would like to go through the IPS process, please contact our office so that we can start an intellectual framework to help you make the right investment decisions.

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FINANCIAL SOLUTIONS FOR LIFE