Which present matches your portfolio?

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DON'T BE KRANKED THIS CHRISTMAS

"Christmas with the Kranks" is a 2004 comedy based on the John Grisham novel, "Skipping Christmas." With their daughter away, the Kranks (Tim Allen and Jamie Lee Curtis) decide to skip Christmas altogether. They find out it is a lot tougher to do especially with neighbor, Vic Frohmeyer (Dan Aykroyd), upset with them for not hosting their annual Christmas party. Just like the Kranks can't skip Christmas without a lot of headaches, you can't tolerate risk well if you skip the process of risk assessment when setting up a successful investment portfolio.

In our Endless Summer issue, I wrote about the volatility in the markets and how 100-plus moves, either way (up or down) now seems to become the norm. Well, not much has changed as I write this article. The S&P 500 is down more than 8.5 percent. This is looking to be the first down year since 2011.

As we approach the end of the year, it is time to make sure you are invested the way you should be. Basically, how you invest should match your risk tolerance. The Merriam-Webster Dictionary defines "risk" as "the possibility that something bad or unpleasant (such as an injury or a loss) will happen."

Our economy seems to be stable – maybe not great, but certainly stable. Face it, the United States is the cleanest dirty shirt in the laundry right now.

As far as the markets go, volatility seems to be based on a lot of noise. We keep hearing things that make us a little unsettled. We have heard comments or news like:

Will the fed raise interest rates? If so, when? Back in August, it was China. Will the Chinese continue to keep their currency devalued? Will they start floating it again? Earlier this summer, it was the Greeks who didn't want to repay their debt. Before that, it was Russia bullying Ukraine. Russia is back in the news with Syria. It seems to go on and on. There will always be something negative that can be read into the market.

As you start to listen to holiday music, sit down and take a hard look at how you are invested. Take a holistic approach and look at your overall portfolio, including retirement plans (401k, 403b, SEP, IRA, etc.); your taxable brokerage accounts (individual, joint, TOD, etc.); your cash accounts (savings, checking, money markets, CDs, etc.), and alternative investments you own (commodities, currency, real estate, etc.).

When you hear that the market is down or up, chances are your portfolio value will not move at the same rate. Many of you may not be as diversified as you should be, but the majority of you are probably not 100 percent invested in the top 500 companies (S&P).

When we sit down with clients, we discuss their risk tolerance.

Which type of risk taker are you?

Are you Connie Conservative – a person who can't sleep at night if they hear any type of negative news? Connie values maintaining her principal over appreciation.

Are you Charlie Capital Preservation – a person who doesn't mind a little risk but would like to maintain what he already owns? Charlie values his principal but will accept a small degree of risk to make money.

Are you Mary Moderate – someone who is comfortable with a moderate risk to achieve a higher long-term return? Many people feel they are moderate risk takers, especially when the markets are doing well. Once the markets go south, they become anxious and basically start losing sleep.

Are you George Growth – someone who is comfortable with short-term volatility in exchange for long-term appreciation? Chances are, Charlie doesn't need to take a Rolaid when the market drops.

Are you Annie Aggressive – someone who values the maximum return on their investment and believes it is more important than protecting the initial investments?

Which one are you?

Let's keep it simple. If you can't sleep at night if you have any chance of losing money, then you are conservative. On the other end of the scale, if you don't mind losing it all if you can hit a home run, then you are aggressive. Rarely do I meet anyone who is truly on either end of the scale. Most investors fall somewhere between 1 and 10.

If you are single, all you have to do is look at yourself in the mirror. Figure out what you want to do and just do it, since you don't have to answer to anyone. If you have a better half, then things aren't quite so easy. You will have to take your spouse or partner's risk into account when you invest your money. You will have to blend each of your numbers to come up with a risk you both can live with. If you are conservative (2 out of 10) and your better half is growth oriented (8 out of 10), then as a couple you should generally have no more than 50 percent in equities. This way, both of you will be able to sleep well at night, regardless of what you read or hear.

It is not always age that dictates risk. We have a client in his late 70s, who I will call Bob. In the old days, Bob would have been a gunslinger who wore his holster down low. Bob eats risk and is almost 100 percent invested in stocks. Bob doesn't even like bonds. His investment portfolio is counterintuitive to those of many people his age. Bob believes that as long as you buy good companies that pay dividends, you do not have to worry. He will not panic. The one thing Bob has that many do not is patience. He does not panic when he hears any of the noise about the market.

On the other end of the risk meter, we have a couple I'll call Jack and Jill. They always thought of themselves as moderate risk takers. They were good with as much as 60 percent or even more of their portfolio in stocks. Their guaranteed income (pensions and Social Security) was enough to cover all of their expenses. During the great recession (2008-09), Jack was cool and calm but Jill was extremely nervous. For several years, Jill was great because the markets were generally up. But Jill couldn't stomach the news of the markets being pummeled daily and seeing her monthly statements going down. This woman became unglued. Jill went from being Mary Moderate to Connie Conservative. Unfortunately, it was after the markets had gone down that she decided she was conservative. She wanted to bail and Jack couldn't stop her. They cashed out of the stock market and locked in deep losses that they never recovered. Had Jack and Jill been truly honest with themselves, they would not have panicked and lost money. Actually, Jack was good with being a moderate risk taker, but Jill was truly a conservative investor.

Give yourself the gift of peace this holiday season and make sure your risk matches who you truly are.

I would like to wish each of you a Merry Christmas or a Happy Hanukkah and a healthy, happy and prosperous new year!

Fred Dunbar, CLU, ChFC, RFC, AIF,® is President of Planning Directions, Inc., a registered investment adviser, and Common Cents Planning, Inc. He is also a registered representative of and offers securities through Commonwealth Financial Network, member FINRA/SIPC. Advisory services offered through Planning Directions, and fixed insurance products and services offered by Common Cents Planning, are separate and unrelated to Commonwealth. Fred may be contacted at 800-647-0762, by e-mail at fdunbar@commoncentsplanning.com or by mail at 239 Baltimore Pike, Glen Mills, PA, 19342. He's always happy to meet with you 'down the shore' at 6606 Central Avenue N. Sea Isle City, NJ 08243.