Financial Alternatives Inc
integrated wealth management

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Executive Summary

- We are currently not making any portfolio changes due to the government shutdown and the debt ceiling debate.
- Never let your emotions dictate your investment decisions.
- Don't try to time the markets.
- Diversify your investments.
- Rebalance your portfolio on a regular basis.
- Pay attention to taxes and keep investment costs low.
- Stay the course.

Timeless Investment Principles

As we write this brief newsletter, talk of the government shutdown and the debt ceiling dominates the news with all manner of predictions and forecasts being presented and debated.

We even contributed to the cacophony of opinions in our last blog post where we discussed the issues briefly and then stated that we are not going to make any changes in reaction to what is happening. This shouldn't be a surprise to our clients.

It is difficult for us to get very excited about recent headlines since we've seen this drama played out so many times before. To act on any of this news would be to violate a very important timeless investment principle which is, "**never let your emotions dictate your investment decisions**".

Could these issues cause the stock market to fall? Of course we could see a market decline - but a quick resolution could also cause it to rise. Furthermore, these movements would likely be short term in nature.

We don't see Warren Buffet sitting around worrying whether or not he should sell any of the companies that Bershire Hathaway owns because of it. In a recent interview he said he has never put off a deal by a few weeks to see what might happen in Washington – and neither should you.

Another timeless investment principle pertinent to these times is, "**don't try to time the markets**". It is tempting to try to get into rising markets and out of falling markets but it is almost always impossible to get the timing right consistently over the long-term.

The next timeless investment principle is to, "**diversify your investments**" so that you have some investments which will do well in good times and others that will do well in bad times. For us, it is very interesting to note that over the last few years as we have gone through some emotionally charged periods with the election, the debt ceiling battles, and the sequester, we have often had to work very hard to keep some clients from selling their growth assets (stocks). However, we rarely had a client call to say that they wanted to increase their allocation to stocks - even though in hindsight a larger allocation to stocks would have resulted in higher returns.

By having an asset allocation that fits your risk profile and is one that you can live with in poorly performing markets, you will be less likely to want to bail out of your growth assets when markets drop.

"**Rebalance your portfolio on a regular basis**" is the next timeless investment principle investors need to commit to putting into practice. By implementing this discipline on a regular basis over time, you assure that you will never be caught buying high and selling low and instead ensure that you will buy low and sell high.

Are you starting to see a theme here with these timeless investment principles? Perhaps not, but there is one thing they all do have in common: They are actions that you have some control over. You have control over whether or not you let your emotions dictate your decisions and whether or not you try to time the markets. In addition, you have control over your portfolio diversification and whether or not you rebalance your investments on a regular basis.

You also have some control over the next timeless investment principle which is "**pay attention to taxes and keep investment costs low**". In general, by placing your stocks in your taxable accounts and your bonds, and fixed income oriented investments in your retirement accounts, you can reduce your tax burden over the long term. And of course low investment costs will increase your investment returns.

Over the years, we have been using more and more low cost index funds in our client portfolios and this trend will continue.

And the last timeless investment strategy is to simply, "**stay the course**". Once you have an investment plan in place, the worst thing you can do is abandon it. Making adjustments and fine tuning things is fine, but radically changing your investment allocation due to market conditions is dangerous and often a recipe for subpar results.

If you follow these investment principles, you won't need to worry about what our feeble politicians are up to in Washington D.C.

Thank You for Your Referrals

Once again we want to thank those of you who continue to refer your friends and family and clients to us. We sincerely appreciate these referrals and we are currently taking on new clients.

Please give us a call if you have any questions or have anything on your mind that you would like to discuss. We hope you had a great summer and are enjoying the cooler autumn weather.

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