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“Why do we invest?”

During my teaching days, that is a question I always asked my students during the first class of the semester. The answers varied. Some students said “to make money” or “to beat the market” (those were unacceptable C- answers). Some said “to stay ahead of inflation” (that was the B- answer). The A answer was “to protect the purchasing power of the investment while maintaining reasonable, risk adjusted returns that are consistent with the goals of the investor’s plan”.

That’s a good answer in the classroom, but that answer may be difficult to say with a smile given the performance of the stock market since the beginning of the year.

A lot of people will try to give you reasons as to *why* this is happening. Some of the reasons include the following: a dramatic slowdown in China’s economy and an ensuing sell-off in their market, problems in the Middle East, questions about the sustainability of our own economic recovery, etc.

While the “why” is interesting, the real question on most people’s minds is whether this is simply a normal adjustment, or if it is the start of something more serious. While only time will tell, if history is a guide, this may just be a passing event.

Going back to the student’s “A” answer, there is an important emphasis on an investor’s goals and the need for a plan. The financial plan helps to answer the questions of how much money do you need and when do you need it. Once the financial plan is in place, we can discuss an investment plan. The investment plan complements the financial plan by identifying the most appropriate investments to help achieve the investor’s goals. In addition to actually selecting investments, the investment plan also provides guidance on asset allocation, diversification, and buy/sell strategies. In other words, the financial plan must guide the investments, but the

investments must never guide the plan. The *plan* will guide our decisions, not our emotions. (Repeat last sentence three times)

Successful investors must avoid the daily static provided by financial news commentators. Internet, TV, and radio news suggest financial markets are excessively complex and arbitrary. Over the short term, this may be accurate. However, over the long term, there are time tested investment principles which will govern our success and serve as a disciplined basis for our decisions.

We must maintain confidence in the time-tested efficiencies of our investments. While a market correction is never welcome, it must be expected as a normal part of the investment experience. (Repeat three times)

If your plan has changed and there is a need for money over the next 3-4 years, then we should consider updating the financial plan. The investments will then be adjusted accordingly. For everyone else, if your goals have not changed, then your portfolio most likely shouldn't change. I can help you determine the best course of action for your personal financial situation.

While the current advice is to keep a level head and a passive approach to planning, it does not mean that my team of investment professionals is taking a break. The market is providing us with attractive opportunities to buy exceptional business at below-average prices. Some of these business have profitable business models, strong free cash flows, solid balance sheets, proven management and are under earning today with robust long-term growth prospects. We are continuously looking for opportunities to reposition assets that can provide better value.

Why do we invest? To protect the purchasing power of the investment while maintaining reasonable, risk adjusted returns that are consistent with the goals of the investor's plan.

I am thankful for our relationship, and look forward to our next conversation. In the meantime, please do not hesitate to contact me with any questions. I'll do my best to provide you with clear answers, and help you understand your options to make smart decisions with your money.

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