Investment Distractions

In times of uncertainty, wealth managers preach long-term discipline in the stock market.

by Burl Gilyard

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There's never a shortage of events for investors to worry about. The presidential election. Stock market swings. The Brexit vote. Global chaos. A persistent climate of economic uncertainty.

Watching cable TV news can sometimes induce fear and panic about the current state of the world. Many investors wonder if they should be taking defensive action to change portfolios and investment strategies.

But amid the barrage of unsettling news, wealth managers are quick to point out that the stock market is reaching record heights. While stocks may drop in the wake of unsettling economic news, the Dow Jones Industrial Average and the S&P 500 have been consistently closing at record highs. At the end of the second quarter this year, the Dow Jones average was up 112 percent compared to its close at the end of the second quarter in 2009.

Nonetheless, Minnesota wealth managers are seeing an uptick in concerns from clients this year. Their advice often boils down to a few fundamental basics: Don't panic. Don't try to time the market. Don't sell in a down cycle. Wealth managers counsel clients to have a long-term plan that's built to withstand some market ups and downs along the way. They note that while the market may drop abruptly on unexpected economic news, it usually hasn't taken long for stocks to bounce back.

Jaime Hansen, an advisor with Minneapolis-based RBC Wealth Management-U.S., says that wealth managers are hearing from clients who are concerned about political uncertainty, the Brexit vote, global terrorism and other issues.

"The main thing that we're talking about with our clients is there are always periods of uncertainty," says Hansen. "I think our clients right now just need reassurance. I think that there's more 'fear investing' going on. It's our job to help our clients exercise discipline."

Her advice to clients? Don't get panicked by every headline; stick with your investment plan. "I think that's difficult for clients to hear," says Hansen. "They think they need to take action."

The Great Recession, which technically ended in June 2009, continues to cast a long shadow for many investors. Hansen says that the deep downturn made some people warier of riskier investments.

"I do think it's caused investors to reassess what their true risk tolerance is. Prior to 2008, investors for the most part said that they had a high risk tolerance," recalls Hansen. But when the bottom fell out of the market, many investors discovered that they were not truly prepared for sharp drops in the value of their portfolios.

"A question that I ask my clients all the time is 'Would you be able to sleep if we had another 2008 this year?' " says Hansen. Veteran wealth manager Ben Marks,

Veteran wealth manager Ben Marks, president and chief investment officer for Minnetonka-based Marks Group Wealth Management, has more than 30 years of experience in the business, which tempers his view of the markets. Marks recalls in the year 2000—when the market was still soaring—no one seemed to believe that the stock market would ever go down.

"We kept telling people: 'Don't expect this to last. This isn't normal,' " recalls Marks. What happened next? The so-called dot-com bubble burst, which was among the factors leading to a recession in the early 2000s.

Today Marks thinks that investors get too easily distracted by events, which he says ultimately won't have much impact on their investments.

Fears about politics

"I believe that investors focus way too much on the presidential election and the political environment and oftentimes they make poor investment decisions based on their political views," says Marks. "The Brexit deal was a media-induced crisis that has no immediate implications."

Marks says that market uncertainty is a constant component of financial markets, but points out that stocks have been on a strong run in recent years. "There's always some level of uncertainty, and it ebbs and flows," says Marks. "[But] given all this uncertainty, the market has hit new highs."

As Marks surveys the current economic landscape, he thinks that many people have a bleaker view of the economy than a look at the fundamentals would justify.

"I think the U.S. economy is in better shape than the consensus believes," says Marks, who points to indicators including the unemployment rate, domestic manufacturing and the housing market. but, he notes, that does not change the need to be prudent about your portfolio. Don't put money at risk if you aren't able to withstand some short-term losses or volatility with it, says Marks. "That's the kind of advice we're giving our clients."

Bonds: A bulwark no more

Dave Hinnenkamp, a partner who runs the wealth management business for Bloomington-based BerganKDV, says that lately he's been wrestling with a problem for clients who are nearing retirement age: the low interest rate on bonds. Historically, Hinnenkamp says, bonds offered a safe haven for investors to earn a reliable 5 or 6 percent interest, which could help provide a reliable income stream in retirement.

"The real challenge in the marketplace today is fixed-income returns are basically dismal and they won't be very good as we look into the foreseeable future," says Hinnenkamp. That's pushing investors who are near retirement age to look more to stocks to boost their returns. "The tradeoff, of course, is there's a lot more volatility that comes with the stock side of it," notes Hinnenkamp. "Trying to get a return on that pool of cash without taking on more volatility than you can handle is one of the bigger challenges out there today."

But Hinnenkamp also says that putting together a financial plan is about more than simply striking a balance between stock and bond holdings. "There are different investment vehicles," says Hinnenkamp. On the equity side he notes that stock investments, for example, can include individual stocks, mutual funds and exchange-traded funds. He says that alternative investments could include commodities, market-neutral funds and real estate investment trusts. Some clients may also own investment property, which has to be factored into the mix.

Hinnenkamp says that the practice of wealth management also calls on advisors to help guide clients "emotionally" through discussions about money, goals, philosophies, worries and planning. In many cases, clients have not taken an in-depth comprehensive approach to thinking about long-term financial plans.

"The first thing we talk to [clients] about is 'There are things we can control and things we cannot control,' " says Hinnenkamp. "We cannot control the markets, we can only control your exposure to them. We really need to help them have discipline. We cannot time the markets."

More cautious investors

Sharon Olson, principal with the Bloomington-based Olson Wealth Group, says that she is seeing more investment wariness among her clients today. "A lot of my clients are business owners or executives from companies. They really do feel like being in business is riskier today," says Olson. "They really are trying to be more conservative in their investment strategy."

Olson says she sees many clients who are looking for predictable and stable returns from their investments. She recalls a recent client who had sold a business, but was very concerned about the possibility of losing the money from the sale on future investments.

"I think, historically, investors, business owners, have really looked for a high-growth portfolio. We know that in order to get a return you do have to reach out for some risk," says Olson. "This environment does make it more difficult. We're seeing historically low interest rates."

But even in a climate of uncertainty, one of the key issues for many is having a solid and consistent source of income once it becomes time to retire. “We’ve used some alternative strategies,” says Olson. “Where we’ve done well this year is dividend-paying stocks, private equity, municipal bonds.”

Olson notes that for many years, the traditional model for a balanced portfolio called for a mix of 60 percent stock and 40 percent bonds. But today, she says, it’s not that simple.

“I think adding some alternative investments in your overall strategy can reduce some of the risk,” says Olson. “Today’s environment sort of asks you to step outside that 60/40 and reach for other opportunities.”

Even more anxiety

Craig Volk, a wealth management advisor in the Minneapolis office of the Milwaukee-based Northwestern Mutual, knows that many of his clients are worried about money. He points to a recent survey by the company, which found that 85 percent of the respondents reported feeling financial anxiety. Furthermore, 36 percent said that their level of anxiety had increased during the past three years.

The 2016 Northwestern Mutual Planning & Progress Study also found that more than two-thirds of those feeling financial anxiety said that it was negatively affecting their health, happiness and moods. Northwestern Mutual does the study annually.

Notably, the studies found that the biggest sources of anxiety had little to do with global economics, but are squarely focused on personal issues. The top two financial fears were having a financial emergency (38 percent of respondents) and unplanned medical expenses (34 percent). Concerns about outliving retirement savings ranked lower, at 21 percent.

Like many wealth managers, Volk is counseling clients not to get too rattled about the election as it relates to their portfolio.

“We’re just telling people and reminding them whether it’s this election or past elections or future elections, there’s not a lot that you can do about it,” says Volk. “Staying focused on the long term is really important.” For long-range planning, Volk says that Northwestern Mutual outlines six risks of retirement: longevity, market volatility, inflation and taxes, health care, long-term care, and leaving a legacy. “These are all things we think everyone needs to think about and deal with,” says Volk.

But Volk notes that the question of longevity is presenting some new challenges for investors. He says that in many cases, clients will likely live longer than they realize and will need a longer-term plan.

“We all know that people are living longer,” says Volk. “Most of our clients think they’re going to die sooner than they’re really going to die.” In other words, clients will need more money than they think in the long haul.

“We’re using annuities a fair amount as an alternative or in conjunction with bonds,” says Volk. “It’s sort of like buying a private pension. Annuities help guarantee that you won’t outlive your income.” RBC’s Hansen says that clients sometimes look to advisors for crystal-ball forecasts about future events. She notes that at the end of the day, whoever wins the election does not move the market much over the long term. But the soaring stock market raises other fears: Is another crash just around the corner?

“It’s not a question of ‘Will there be another correction?’ The question is when. And we don’t know what the timing on that will be,” says Hansen, who notes that RBC defines a correction as any market drop greater than 10 percent. “If the question is ‘Are we going to see another 2008?,’ that’s really a question that we can’t answer because nobody saw that coming.”

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