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Diagnosing The Health Of Your Portfolio During This Period of Uncertainty

Your Portfolio And Its Alignment With Your Goals And Your Life Plan

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In addition to our personal health, the current state of the world has drawn our financial health to center stage. Prior to the current recession, we experienced the longest bull market in history. During such times, it's easy to adopt the "if it ain't broke, don't fix it" approach, but that shouldn't apply to your financial life. Staying the course takes work, and diagnosing the health of your portfolio, whether in good times or bad, should be an exercise everyone is familiar with. Just like how you exercise regularly, your portfolio, and your spending pattern (or routine) should be reviewed.

Perhaps during the current pandemic you've taken some time to look at your portfolio, asset allocation, and goals. Times like these present opportunities to determine what the hallmarks of a strong portfolio are and assess whether you are properly positioned to meet your goals going forward. To help this quest, you should be asking those tough questions such as, 'Will I still be working five years from now? Who will be taking care of my parents? Will my children finally be able to pay their bills without my help? Here are some key things to look for and questions to ask yourself when reviewing your investment portfolio:

1. **Asset Allocation**: How is your money split between stocks, bonds, and cash? This mix is the primary driver of returns over the long term – more important than the investments themselves. The goal is to create an allocation you are comfortable with and will stick to in both rising and declining markets. Again, ask those questions – what will I need my money for? How about that rental property you've been dreaming of for the past ten years? How about that bucket list trip to Greece? Will I have the needed cash for those kinds of things?
2. **Diversification**: The goal of diversification is to have investments that perform differently across market cycles. Within stocks that means looking at your geographic, size, and style mixes. For bonds, two important considerations are credit and interest rate risks. A well-diversified portfolio, where some assets zig while others zag, will enable your portfolio to grow steadily over time. With stocks you can also ask yourself, what are the companies that mean something to me? How are they run? Do they listen to their shareholders and do they offer a dividend that will be needed in the future?
3. **Fees:** Be sure you can answer the question "how much am I being charged?" Sales charges, mutual funds fees, and trading fees all could be pulled from your portfolio. If you're working with a professional advisor: hourly, retainer, AUM, and financial planning fees can add up. How does what you're paying stack up with industry norms? Transparency is paramount.

4. **Returns**: Do you know the return on your portfolio? If you are investing holistically, are you measuring the return on your entire portfolio? Cash inflows and outflows should be excluded as they can greatly affect the return. Don't confuse the value of your portfolio with its return.
5. **Risk:** You should be looking at the ratio between risk and return. Your portfolio may be performing well, but with how much risk? Higher risk portfolios tend to outperform during rising markets and underperform during declining markets. Be sure the return on your portfolio is consummate with the level of risk you are taking.
6. **Complexity:** You should not invest in anything you do not understand. Some questions you may want to ask yourself include:

    1. How many individual securities are in your portfolio?

    2. If you invest in multiple funds, is there significant overlap in their holdings?

    3. How are the investments taxed?

Even in the best of markets, your portfolio still needs oversight. You don't need to look at it every day, or even every month, but you should have a fundamental understanding of whether its structure is aligned with your goals, risk tolerance, and overall financial plan.

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