# INVESTMENT INSIGHTS

Finkelberg INVESTMENTS of RAYMOND JAMES®



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| DJIA | S&P 500 | 3-MONTH T-BILL | 10-YR TREASURY BOND |
|---|---|---|---|
| 34,823 | 4,367 | 0.05% | 1.27% |


# *Where's Your C.U.P.?*

"Say uncle" is a children's playground taunt that challenges an opponent to give up. When a child surrenders, he has "cried uncle." In boxing parlance, he has "thrown in the towel."

In investing, "Cry Uncle" relates to a drop in our portfolio value large enough to flip the decision-making switch in our brains from rational to emotional. I call this decisive moment the "Cry Uncle Point" or C.U.P. for short.


When the C.U.P. is reached, the pain of loss overtakes our logic and we are tempted to sell all or part of our holdings. This is an emotional reaction and runs contrary to historical precedent. And while past performance does not guarantee future results, every time the U.S. stock market previously has dropped, it has always recovered to reach new highs. So while the C.U.P. emotionally pushes us to sell, and assuming our time frame is not short-term, the rational response should actually be to buy, not sell.

Let's review a few stock market assumptions and personal admissions that need to be acknowledged:

1) While the long-term market trend is higher, stocks will drop from time to time. In some cases, the decline is relatively mild while at other times deep, relentless, and gut-wrenching.

2) I don't know when these drops will occur and therefore, will not be able to advise you to get out of the market before those declines occur. (Nor will I try.)

3) I don't know how deep the decline will be, how long it will last, or how long it will take to recover to new highs. (By the way, no one does.)

If you accept my shortcomings in fortune telling, otherwise known as market timing, then the question becomes "What do we do in order to prepare?" And this is where the "Cry Uncle Point" comes into play. My question to you is "Where's your C.U.P.?"

If you can realistically determine how sizeable (either in dollars or in percentage terms) a drop in value you can handle during lousy markets, you can be prepared and remain rational. Market declines are inevitable but not enjoyable. They should not cause you to lose sleep, obsess over your account value, and certainly not tempt you to sell. If you experience these symptoms, you have exceeded your Cry Uncle Point. Determining your C.U.P. may be the most important investment question you ever answer because liquidating your investments due to fear can ruin an otherwise solid, long-term financial plan.

*Ruth Ann Avalon, Sally's daughter, has found her C.U.P.*

So when the market gets nasty and drops 50%, can you handle watching your account value drop in half? If not, how about 40%, 30%, 20%, etc.? Bonds and cash can be added to your portfolio to dampen the volatility. Of course, bonds have their own risk and are likely to lower the long-term rate of return, but that's the classic investment risk/return trade-off. An investor is better to accept a more modest rate of return with a portfolio that will not exceed his or her C.U.P. than to be too aggressive and sell after a major decline because of an emotional reaction.

These comments are being written as the stock market is trading at or near all-time records. Thinking about downside risk is probably not top of mind. But this is precisely when you should be paying attention to downside risk. You have the ability to proactively determine the volatility of your investments. Doesn't it make sense to consider your C.U.P. now and not after an inevitable decline?

A frequently asked question is whether once a C.U.P. is chosen, is it OK to change it at some future date. My answer is wholeheartedly "maybe." If you decide that factors in your life have changed which impact your ability to withstand volatility, then changing your portfolio is sensible. For example, in retirement, the lack of a paycheck might make an individual more sensitive to a decline in value and therefore the C.U.P. might be triggered sooner. This is a proactive change.

However, if an individual gets caught up with market movements so there is a temptation to become more aggressive after a prolonged market uptrend and more conservative after a downturn, this is a reactive change in C.U.P. As long as your downside limit was properly determined, I would highly discourage changing a portfolio in a reactive fashion.

Our team is here to help you answer the "Where is your C.U.P.?" question and advise you on how to construct your portfolio to match your risk tolerance. Please let us know if you have questions or concerns about matching your investments to your C.U.P.

Your C.U.P. is unique to you. It is likely due to a combination of genetics and early learning experience. We are often asked by clients if their mixture of stocks, bonds, and cash is like our other clients'. My response is that the asset allocation only has to be right for you, your plans, and your C.U.P. It does not matter what anyone else's portfolio looks like as long as yours is suitable for you.

Enclosed you will find two "Where's your C.U.P.?" ceramic cups. They are a token of appreciation for your loyalty, friendship, and trust and a reminder of the importance of finding and minding your C.U.P. As you relax and enjoy your morning beverage, we hope you will also relax knowing you have found your C.U.P.

Until next time,

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