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HOME

PLANNER RESOURCES

## PLANNING LONG TERM IN A SHORT-TERM WORLD

Like a deer caught in the headlights, the American consumer is paralyzed in place. Amid orange alerts, impending war with Iraq, saber rattling from North Korea, a bear market that can't seem to find its recovery legs and a continued weak economy, Americans have put their personal finances on hold.

But this wait-and-see-attitude, this basing of long-term financial goals and decisions on short-term events, is not a wise idea, content financial planners. Putting long-term planning on hold out of fear, point out planners, is a form of action and has consequences that can surface much later, usually with negative results.

Take retirement, for example. Some Americans have stopped contributing to their retirement plans until they see which way the stock market will blow and whether we go to war with Iraq. But should you hamper your plans for retirement—which may be 5, 15 or 25 years down the road—because of Enron and Saddam Hussein?

Other Americans continue to invest but are sticking to cash and bonds while they wait for the market to recover. Yet waiting may mean missing out on the opportunity not only to buy stocks at a discount, but on much of the eventual recovery.

SEI Investments, an asset management firm in Oaks, Pennsylvania, studied 12 bear markets since World War II. It found that investors who either stayed in the market through its bottom, or were fortunate to enter at the bottom, saw the S&P 500 gain an average of 32.5 percent (minus dividends) the first year of recovery. Investors who missed only the first week of the recovery saw gains of 24.3 percent. Those who waited three months before joining the party gained only 14.8 percent the first year.

That's why financial plans should not be built on what people think is going to happen tomorrow or the next day, say planners. Tomorrow changes every day. Instead, look further down the road. If your investment portfolio calls for a particular diversified mix of stocks, bonds, cash and other assets that's appropriate for your long-range needs, stick with the allocation and ignore what's happening in the world in the short run. As one CERTIFIED FINANCIAL PLANNER™ professional summed it up, "You don't look at the world and make your financial plans. You make your plans and then look at the world."

If there is an upside in this wait-and-see attitude, it is that many people are using the opportunity to assess their overall financial situation, something they ideally should have done before things turned sour.

As one economist recently told the Wall Street Journal, "people are hunkering down and putting their

financial house in order.” Putting your financial house in order is always a good thing. One of the strengths of financial planning is that it provides a solid foundation and flexibility to weather tough times. An emergency fund, for example, can help pay the bills should you lose your job, and a diversified investment portfolio can minimize the impact of bear markets. But it works best to put your financial house in order before bad times hit.

Another sign of the times is that people are watching their spending more closely and reducing their short-term debt. In February, the Federal Reserve reported the largest weekly decline in credit-card debt in 35 years. But isn't paying down and minimizing high-interest, short-term debt, especially on such things as credit cards, usually a good thing, regardless of the times?

The key to surviving these difficult financial times, stress planners, is not to read the headlines but to read your heart. Where do you want to be 5, 10, 20 years from now? What are your life goals? Despite what's going on in the markets and the world today, haven't your dreams remained intact: you have children you want to send to college, a business you want to start, a home you want to buy, a retirement you want to enjoy?

Smart finances are built and carried out with a long-term perspective. Don't let short-term events put your dreams—and the financial planning and actions needed to make them happen—on hold.

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