

## **Stick To The Plan**

*Having a financial plan gives your logic a leg up over your emotions during times of market volatility.*

The past year has sent the stock markets smashing through record high after record high, with some gut-wrenching drops in between, like the Dow's 416-point slide in February 2007. That roller coaster ride has tested even the most stoic of investors, but those with a professionally prepared, long-term financial plan most likely have fared better than most do-it-yourself investors.

The emerging science of neuroeconomics, which combines neuroscience with economics and psychology, has made amazing findings about the brain and investing-related emotions using imaging technology. These studies have found that the survival wiring in your brain, which makes you desire reward and avoid risk or pain, has stronger grounding than your logical wiring. Put to the test, your desire to avoid pain – which always outweighs the desire for reward – will usually win over logic.

A financial plan can bolster your logic when your emotions want to take over. Its greatest strength lies right within its construction. Your financial planner developed your plan based on your personal situation, including your goals, your age, your assets and income, your liabilities and your tolerance for risk. Faced with volatility and the emotional desire to flee the pain of market losses or increase the euphoria of market gains, your financial planner takes you back to the plan: Has anything changed about your personal situation as a result of the market? If not, there's no reason to change the plan.

That's not to say that financial plans should be created in a vacuum and then shoved in a drawer to be dusted off in 10, 20 or 30 years when you retire. Your financial planner will review your plan with you at least annually and whenever you face a life-changing event, including birth of a child, an empty nest, retirement, divorce or widowhood, illness or disability or death of a spouse, parent or child.

Multiple studies of past market data have shown that the longer you have money invested in the market, the less volatility your portfolio experiences. That's because time allows the highest highs to offset the lowest lows. On average, the markets have had positive returns in seven out of 10 years for the past 70 years, according to the Financial Planning Association. The longer you are invested in the market, the more up years you accumulate.

Market swings make headlines because they reflect change – one of journalism's criteria for news making. As we've seen this year, daily swings don't necessarily reflect a trend of any significance. The market can be up hundreds of points one day only to be down the same amount the next day. Trying to guess which way it will go on a given day, week, month or even year is a fool's game that plays to your emotions.

Financial planning, on the other hand, plays to your logic. As you reach milestones in your life, you can look at your plan and say, "Ah, yes. My planner talked about this, and we prepared for it." That applies to market volatility as well; your financial planner uses technical tools to take into consideration the affect of market volatility and uses diversification, asset allocation and rebalancing, among other strategies, to offset those risks.

Will your account balance at times show a drop in value? Absolutely. No one can guarantee you will never lose money on an investment. A financial plan and the counsel of your financial planner can give your logic the boost it needs to keep your emotions from running roughshod over your financial goals.

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