OLD NORTH STATE TRUST, LLC

Proactive Advisors Plan Ahead to Mitigate Markets' Volatility

One of the greatest challenges for any investor is how to cope with turbulence in the financial markets without panicking. It's too easy to let emotion drive rash decisions that can make a bad situation worse. That has always been a concern for us, but never more than in the years since the "Great Recession" of 2008-2009.

Obviously we have seen more than a little volatility in the market lately; for the last couple of years, in fact. And while market ups and downs are nothing new, recent history has had a real impact on investors' psychology.

The types of clients we serve at Old North State Trust typically are well-informed and sophisticated in the ways of business. Traditionally, they have known how to weather this type of volatility and haven't been overly concerned about day-to-day or even year-to-year fluctuations. After all, experience has shown, in the long run markets always rise.

But then came the bursting of the housing bubble and the financial crisis of 2008. The sharp downturns that year and the next had the effect of making the "long run" seem like it might be very long, indeed. Those of us who never experienced the Great Depression of the 1930s, and who saw that post-war recessions typically were followed by a strong recovery, had to adjust to a new experience.

And so folks' mindset changed. Investors everywhere, and certainly many of our clients, are more worried than ever before. To that worry, my first answer is always: know that you can call on us, not just for advice, but for perspective and reassurance. Our clients understand that when they call, we will always be here, and we will respond to their concerns promptly and helpfully.

Of course, it's not that we're always sitting idly at our desks, waiting for the phone to ring. (Managing trust and estates is serious, demanding work, and can pull an advisor in many directions!) But it's our priority, when clients' call to make responding to those calls a top priority. They know they won't have to wait for days to get a call back.

Our clients also know they can trust the person on the other end of the phone to understand their questions, know their particular situations, and give them answers that make sense and are well-informed.

Now, we think we're all pretty good at staying in touch with what's happening and reacting well to events. But that trust I referred to comes from something much deeper and broader.

That means, well before any particular crisis or fluctuation in the markets, we have already put a plan in place to deal with the issues each individual client is concerned about. That's the difference between our approach, which is to be defensive and proactive, and being merely reactive.

Let me explain what that means. When we first start working with a client, and then at regular intervals afterward, we thoroughly review their specific needs, their tolerance for risk, and the time horizon for which they are investing.

Risk tolerance means two things. First, of course, is a matter of numbers. How much can you afford to lose, in return for the hope of a significant gain? But every bit as important is the psychological component. Different people have different emotional reactions to the possibility of gaining, or losing, or missing out on a potential opportunity. The investment strategies we work out for each client are unique, and always done with not just their opinions, but also their feelings, in mind.

Another way that careful advance planning can help set an investor's mind at ease is by matching specific investments to specific objectives. If the goal is to build assets for a retirement that's 20 years away, then it's much easier to watch big short-term swings in security values without worrying too much. But a portfolio that's meant to finance a child's college education starting two years from now would be crafted in a much more conservative way. That ensures it can't lose more value than that short time horizon would permit it to regain.

We also work carefully, within the limits our clients set for us, to build portfolios that include counter-cyclical investments. A simplistic example is that, typically, if stocks are going down, bonds are going up. So investing in both will help mitigate potential losses. Other forms of asset balancing can also help ease an investor's worry: domestic versus foreign stocks and growth versus value, for example. Commodities and real estate and money markets can also be part of a mix intended to match each client's risk tolerance.

Many investors have several different "pots" of assets. Some will be designed conservatively, to guarantee that specific goals will be met. Others will be explicitly speculative, balancing the chance of losses against the prospect of big gains. By knowing, well in advance, how our clients think – and feel – about goals and values, risks and rewards, we can help steady their nerves through those trying days on Wall Street.

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