Dorchester Advisors
Money worked harder

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Things You Control

2022 Year End Investment Thoughts

2022 is shaping up to be a poor-return year for most financial markets. That is uncomfortable but not unusual.

The Dow was approx. at 2,000 when I started investing seriously; today it stands at approx. 34,000; a 17-fold rise. And in all these "Dow-Point-years" (as I have dubbed them), hundreds of economic and financial events have happened, both good ones and unwelcome ones. And by living through these events, analyzing them, and learning from them, I developed a few useful insights.

For example, our Bear-Market playbook is a collection of lessons and actions of useful things to do during the occasional but inevitable bear markets; our Tax-Review playbook, used more regularly, is a list of things we can do for clients to help them manage the tax impact of their investments for their specific situation. For example:

For corporate executives we were able to help them review their Executive Compensation program and update their strategies as their corporate stock price declined. For these folks, their "exec-comp" will be a very significant portion of their retirement portfolio and having a multi-year-horizon strategy is valuable to get better results. Now, granted that none of these folks will be clipping coupons in retirement; but a well-planned exit from the program could well be the difference between flying business class and first class in retirement.

For some other clients who are in the transition years to retirement, we reviewed their financial plans with them to insure that the market decline did not disrupt their retirement plans. At the very least they were reassured that their planned retirement was not decimated (contrary to the media messaging). But, we also were able to re-assess their social security & Medicare claiming strategy, re-affirming their plans for generating retirement income etc.

We discussed Cash Balance Plans with selected business-owner clients. This is a powerful way to shelter income and hence reduce current taxes, without compromising revenues (and hence the potential sales price their business can command), and build up Owners' assets that will give them a more comfortable retirement.

Our point is that financial markets will fluctuate – that is their nature. But, as serious investors we can use these fluctuations to our advantage or at the very least not let them unnerve us.

Why Things You Control are Important

In Investing (as in Life) we can: hope, worry or plan.

I believe that when we hope or worry, we are largely looking at the future and are focused on things we do not control. We hope the markets will get higher and we will make money. Or we worry that markets will collapse and we may lose all our money. And yet, deep down in our hearts, we know that whether our thoughts are optimistic or pessimistic they simply do not influence future outcomes.

We can also look at the future plan-fully. When we do this we tend to focus on the things that we do control. And, by picking activities that are in our control and that are important to our future we have a far better chance of achieving our goals. Of course, life holds few guarantees! So, for example, while we all hope that our favorite stock pick will be a high performing stock, not implementing a properly diversified portfolio is plainly irresponsible to our financial well-being.

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Our Financial Planning Principles

Without a Purpose, accumulating money can become a soul-less task. A financial plan gives your savings a purpose.

It's OK to be broke when you are young - not so when you are old: Studies show that people typically tolerate risk and uncertainty better when they are younger.

Getting down from Mount Everest is as important as getting up: Pay as much attention to accumulating money before you retire as you do to consuming it after you retire.

Planning is life-stage dependent: The principles of saving and investing money in your early years are very different from the techniques that you use in retirement to generate a reliable income stream.

Financial confidence comes from being on top of your taxes, protecting yourself from risks, having a clear picture of your investments and debt, and specific targets for saving and spending.

Achieving financial independence requires a careful balancing of Income, expenses, taxes, and savings. This balancing act (planning) is not intuitive, nor can it be done well on the back of an envelope, but effective plans do give more peace of mind.

Identify your true risks (in contrast to investment volatility, labelled as risk, or uncertainty) and take action to manage them using the correct risk management tools. Pick the right tools for the job - investments won't manage the risks you face, risk products (insurance) won't deliver the growth and flexibility you need.

Taxes remain important even after you retire. However, in retirement your investments become the principal source of your income and hence drive your taxes.

In matters of health: it's your body but your doctor knows better how your body works. So it is with your money: A partnership with an advisor will help you to reach your financial goals - you save, they help your savings grow. Together you can get there faster.