

Clarify Realistic Objectives

By Bill Koehler, CFA, President, and CEO

“What are you trying to do?” A late mentor of mine would ask me that question after seeking his business and investment advice. While I secretly hoped he would give me a short, succinct, usable answer, that rarely happened. His method of posing a question back to me was more challenging but ultimately more helpful. By asking this question of me, he forced me to confront my issue in an honest way. The exchanges always resulted in clarified thinking and establishment of goal-oriented action plans. His perspective was “the more specific you can be in outlining what you want, the more likely you are to get it.”

Investing is a crucial aspect of personal finance. The foundation of a successful investment strategy lies in the establishment of clear, realistic objectives. When forming an investment plan, the process of defining and clarifying these objectives is of paramount importance, as it serves as a guiding light for all subsequent investment decisions.

At the heart of a well-crafted investment plan are the investor’s goals and risk tolerance. These factors, which are unique to everyone, play a pivotal role in shaping the investment strategy. Without a clear understanding of these elements, investors are prone to making decisions that may not align with their long-term financial aspirations or their ability to withstand market fluctuations.

FOMO Guardrails

One of the primary benefits of clarifying realistic objectives is it helps investors avoid the emotional

pitfalls that can arise during market cycles. In particular, the phenomenon of FOMO, or the fear of missing out, is a common trap that often ensnares investors during periods of sustained market growth, or “bull markets.”

During bull markets, investors can become swept up in the frenzy of rising asset prices, leading them to make hasty decisions driven by the desire to capitalize on the markets’ momentum. This emotional response can cause investors to disregard their long-term objectives and risk tolerance, instead prioritizing short-term gains over the preservation of their wealth.

By establishing a clear set of realistic objectives, investors can mitigate the influence of FOMO and other emotional biases. These objectives serve as a steadfast reference point, reminding investors of their true financial goals and the level of risk they

are willing to accept. This clarity helps investors maintain a disciplined approach, even in the face of tempting market opportunities.

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Forget the Hype

For example, let’s consider an investor who has defined their primary objective as building a retirement nest egg over the next 20 years. During a prolonged bull market, they may be tempted



to divert a portion of their investment portfolio into higher-risk, speculative assets in the hope of achieving outsized returns. However, by referencing their clearly articulated objective of long-term wealth preservation, the investor can resist the lure of FOMO and stay focused on their core investment strategy.

Similarly, an investor with a low-risk tolerance may be tempted to shift their portfolio toward more aggressive investments during a market rally, fearing they are missing out on potential gains. By having a well-defined set of realistic objectives, this investor can resist the urge to stray from their conservative approach, which is better suited to their risk profile and long-term financial goals.

Clarifying realistic objectives also helps investors avoid the trap of chasing past performance. It is not uncommon for investors to become enamored with an asset or investment strategy that has recently

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delivered impressive returns, only to find that the underlying fundamentals

do not align with their own objectives. By maintaining a clear focus on their goals and risk tolerance, investors can resist the temptation to chase short-term trends and instead build a diversified portfolio that is tailored to their specific needs.

Furthermore, the process of clarifying realistic objectives encourages investors to engage in a deeper exploration of their financial situation and

personal values. This self-reflection can lead to a better understanding of their investment time horizon, income needs and tolerance for volatility – all of which are crucial inputs in the formulation of a robust investment plan.

More Opportunities Await

Once these objectives are clearly defined, they serve as a framework for making informed investment decisions. Instead of being swayed by market hype or emotional impulses, investors can evaluate potential investments through the lens of their stated objectives, ensuring that every allocation aligns with their long-term financial goals.

In conclusion, the importance of clarifying realistic objectives when forming an investment plan cannot be overstated. By establishing a clear set of goals and risk tolerance parameters, investors can guard against the emotional traps and biases which can derail their investment strategy, particularly during bull markets. This disciplined approach not only helps preserve wealth but also fosters a deeper understanding of one's financial situation and personal values, ultimately leading to a more successful and fulfilling investment journey.

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