

Financial Peace of Mind

Like happiness, the desire to have “peace of mind” is universal. We would all like to be free from troubles, problems, worries and fears. And like happiness, peace of mind is not the same for everyone. What’s more, the things which concern each of us change over time, as the worries of yesterday make way for the new worries of today. With all the recent events unfolding in the financial markets, it’s natural to ask the question: “Am I going to be okay?”

Having a sense of financial security is an important component of one’s overall peace of mind. Below we offer some ideas that might help you improve your financial peace of mind.

Have a financial plan: If you don’t know where you want to go, it’s really hard to know if you are on track to get there. Because most of us don’t have our names on a road with arrows pointing us in the right direction, we have to build our own maps and track our own progress. Building a financial plan doesn’t mean that you have to lock in your destination (i.e., retirement date) or that you must know exactly how much you’ll spend from your portfolio each year. It is a powerful tool, though, to monitor your progress toward your personal goals. As your goals or your financial condition change, you simply update your plan and test it to see if you are still on track.



Cern Basher’s optimal route

Adopt a healthy state of mind: During the recent market turmoil, what was your state of mind after some of the really big sell offs? Although a healthy level of concern is appropriate, paralyzing fear and sleepless nights aren’t conducive to peace of mind. Experiencing a higher level of anxiety is natural after market declines, but were you also able to see lower prices as opportunities? In general, lower securities prices (notwithstanding bankruptcy risks) make for more attractive investments. Unless your state of mind allows you to think in this way, it can be incredibly difficult to purchase investments at truly attractive levels when these opportunities present themselves.

Maintain some historical perspective: Learn to put past performance in its proper context and certainly don’t buy something just because it’s done well recently. At one point during the first quarter of 2009, it was reported that returns on government bonds had outpaced returns on U.S. large company stocks for the last 30 years. While this may have been true at a single point in time, it doesn’t mean that stocks are no longer a good investment or that the next 30 years are going to be just as bad. Historically, stocks have done much better than government bonds.

“Success, happiness, peace of mind and fulfillment - the most priceless of human treasures - are available to all among us, without exception, who make things happen - who make “good” things happen - in the world around them.”

Joe Klock

Control the things you can: If you worry too much about the things that are not in your control, it will be hard to achieve much peace of mind. Realize that financial markets are often driven by the emotions of those participating in them. Chances are that if you feel stressed out about the markets, others are feeling the same way too. While it can take some time for these emotional actions to play out in the markets, people can't sustain feelings of acute fear and panic forever. Things eventually calm down and rational thought prevails again.

While investment returns are important in helping you meet your financial goals, it is possible to succeed without getting much help from the financial markets. Since you can't control the markets, instead focus on what's in your control; 1) how much you save, 2) when you decide to begin paying yourself from your savings (often called retirement) and 3) how much you pay yourself. If the markets do well you can give yourself a raise; otherwise, one forgoes increases in income until one can afford to do so again.

Protect yourself against disasters: Buy insurance to protect yourself against the big disasters. If you injure yourself and can no longer work, do you have enough disability insurance coverage? If you die tomorrow, do you have enough life insurance to meet the needs of those you leave behind? Do you have the right health insurance coverage for your family? For later in life, should you consider buying long-term care insurance in case your financial resources aren't sufficient to meet your need for care?

Keep some cash on hand: Hold enough cash to cover your near-term needs so that you don't become a forced seller of other investments. Forced sellers never get good prices for the things they sell as they are at the markets' mercy. Often there are few or no buyers. Also, safety of principal should be your primary concern for your cash holdings. In a low interest rate environment, like we are experiencing today, do not take risks to stretch for incremental returns as the upside return is never worth the potential downside loss.



Use the markets to your advantage: If you are not a forced seller, then markets are there to serve you. When you are accumulating money, take advantage of the dips. When you are nearing the point that you'll begin paying yourself from your savings, take advantage of the rallies to build a cash reserve so you won't be forced to sell anything just to meet your spending needs. When you are paying yourself you can let the market fluctuate without worrying about when to sell and you'll have peace of mind knowing that your income needs are already covered.

Work with an independent advisor who is on your side: Professional advisors exist to help their clients answer the question "Am I going to be okay?" If you could benefit from professional advice, then find an advisor who has your best interest at heart. Work with a firm whose investment philosophy and temperament matches yours, a firm with a skilled and experienced team, and one that is process oriented. Also, look for a firm like Madison where the advisors invest in the same vehicles as their clients, have no conflicts of interest and are fiduciaries. While few things in the financial markets are ever certain, professional advisors can help their clients find financial peace of mind.

"Money cannot buy peace of mind. It cannot heal ruptured relationships, or build meaning into a life that has none."
Richard M. DeVos