

Financially InKlein'd™

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Those Who Plan Don't Panic

With the recent stock market decline and associated media frenzy, there are a lot of concerned investors lately. An 8% decline in the Dow Jones Industrial Average since December 31st, accompanied by some dizzying market swings of as much as 800 points between the low and high in one recent session, has definitely raised many eyebrows.

This is not the first market slide and it certainly won't be the last, however, the one thing in common in all market downturns is: Those who plan don't panic.

Most People Don't Plan to Fail

There's an old saying that I've shared with my clients over the years, "Most people don't plan to fail, they fail to plan." "Those who plan don't panic" is simply the corollary to this statement.

So why is it that people who have a written financial plan remain relatively calm and take things in stride when the financial headlines make it seem like the sky is falling?

Roadmap to Your Destination

A financial plan is basically a roadmap for achieving your financial goals and lifelong aspirations. It includes an analysis of your current financial condition and a realistic assessment of what is necessary to help you achieve your various goals.

Even though most men are generally reluctant to admit it, everyone knows that it is much easier, and much less stressful for all involved, to get to one's destination for the first time if you have a roadmap or navigation system in your car.

Plan Contingency Simulation

A roadmap is a great tool, however, in and of itself, generally does not provide for potential contingencies that, if unplanned for, can result in you not reaching your final destination.

When aspiring commercial jet pilots are learning how to fly a particular type of jet, a significant part of their training includes flight simulation. This enables them to experience flying, including how to handle turbulence and potential disasters, prior to ever setting foot in the jet for which they are being trained to fly.

Experienced financial planners understand that their clients' financial plans, in order to be realistic and to have a higher probability of achievement of the plan's inherent goals, must include event simulation similar to what a jet pilot undergoes.

Stress Testing

Financial planning event simulation includes "stress testing" and development of various "what-if" scenarios.

The purpose of "stress testing" is to overlay actual historical market declines, or bear markets, and associated inflation rate fluctuations of varying lengths of time on top of a plan that otherwise includes fixed average rates of return and inflation assumptions.

By going through this exercise, you will "experience" first-hand the effects of short- and long-term bear markets on your plan. This will enable you to work with your financial planner to make appropriate adjustments to your plan funding amounts and timing as well as to your long-term goals in anticipation of potential market downturns as part of your overall financial plan.

What If?

In addition to stress testing, a thorough financial plan will also include planning for other known life contingencies that you and your family are likely to encounter, including disability, long-term care, premature death, and property casualties.

Whereas the stock market has always recovered from declines, the occurrence of any one of the above events, if unplanned for, can devastate your entire investment portfolio.

Market downturns, while uncomfortable, are a known temporary occurrence that should be planned for and viewed as a buying opportunity for achieving your financial goals.