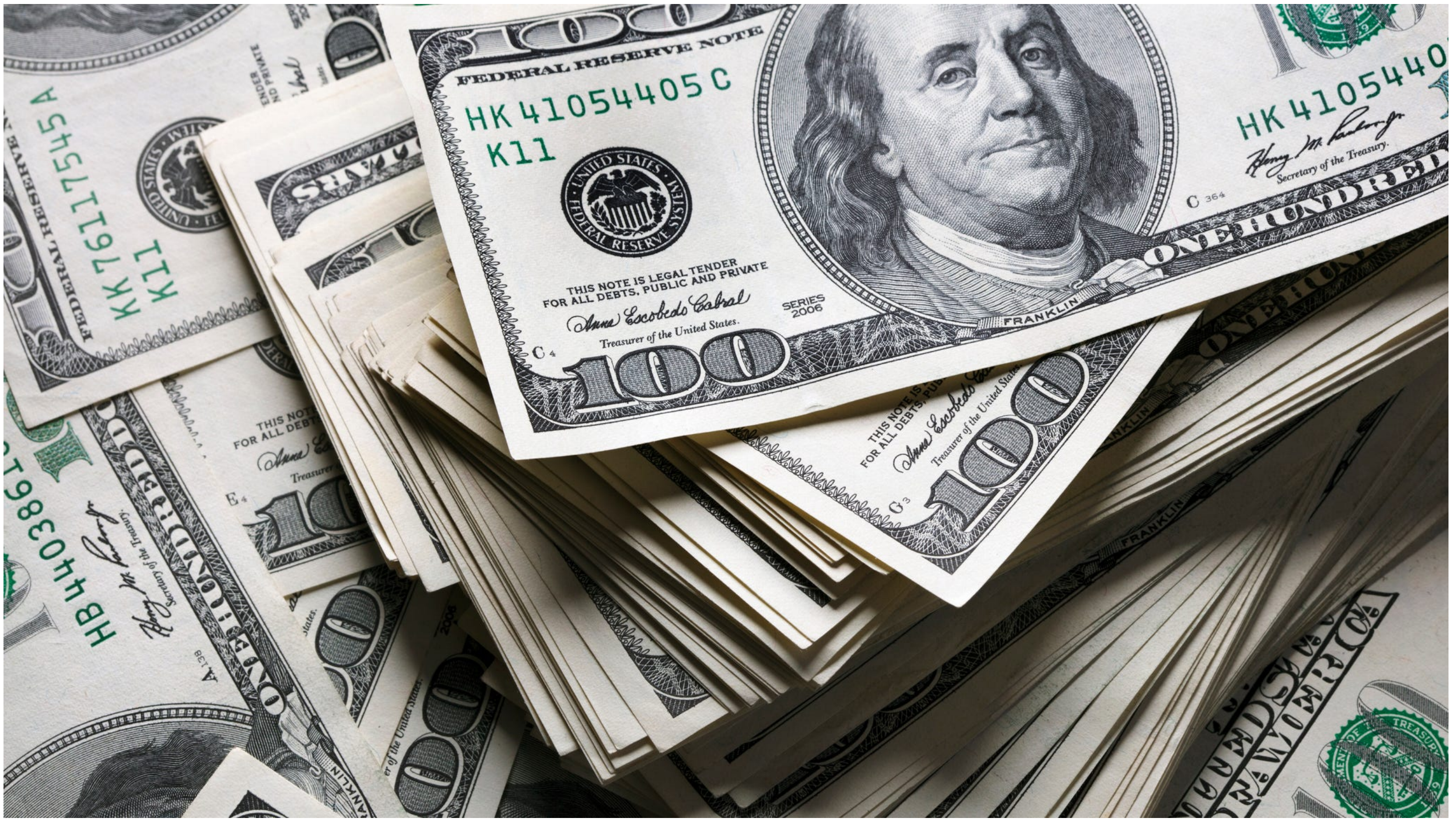
Financial storms can be risky: That's where an 'all-weather' portfolio can come in handy



NEWS

Steven Podnos

Guest columnist

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Q: We have heard the term “all-weather portfolio." What does that mean?

A: Just as the weather is both variable and often unpredictable, the returns on various investments can be the same. Consider just stocks over the last three years: A massive drop in the spring of 2020 (the start of the pandemic); then almost two years of wonderful returns; and then in 2022, a painful drop for both stocks and bonds.

This year looks uncertain. Consider fixed income (bonds) **—** good returns for almost 40 years and now painful drops in price in 2022. Did anyone accurately predict these moves (no!)? Can anyone predict what markets will do in the next month or next year (no!)?

Financial planner Steven Podnos: "An all-weather portfolio relies on the power of diversification to increase the long-term returns of your all-so-important life savings.:

Since neither we nor anyone else has an accurate crystal ball, we can design our portfolios to achieve a positive return after taxes and inflation in the long term. We don’t know exactly which parts of the portfolio will be the drivers of these returns or when positive returns will occur.

We use a variety of vehicles (various types of U.S. stocks, foreign developed stocks, emerging market stocks, and several types of fixed income funds) on purpose with the foreknowledge that this mix will do well in the long term (but will be unpredictable in any short to intermediate term period).

So, there will always be times when some of these investments are doing better than others. You will mostly notice this when the broad U.S. stock market is doing well as that is what you see reported in the news and the financial press. When the U.S. stock market is doing well and other investments not so well, you will ask “Why is my portfolio underperforming the stock market?” But note that it is underperforming only the U.S. stock market and that at other times it will be outperforming the U.S. stock market.

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More:'Efficient' markets: What does that mean in terms of investments?

For example, during the decade 2000-2010, the U.S. stock market had two tough bear markets and almost no real return. Almost everything outside the U.S. at that time did much better and supplied all the positive earnings for our families. Yet, few people noticed that their portfolios were outperforming the U.S. market. But having investments outside the U.S. was a vital factor in not losing purchasing power during that decade.

Watching your portfolio closely (or even parts of it) is injurious to your emotional health. Remember, your investment returns are like the weather — they change all the time and not usually for any clear reason. But we have a long history to support staying diversified and invested through thick and thin, with the very reasonable expectation that our investments will grow faster than taxes and inflation.

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We must be prepared for any type of weather consistently to provide the best long-term results for all of us. We also know that at the very time that you become concerned about price drops in your portfolio, they are in fact less risky than when they were high-flying.

An all-weather portfolio relies on the power of diversification to increase the long-term returns of your all-so-important life savings.

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