

DJIA 25,658 S&P 500 2,818 3-MONTH T-BILL 2.46% 10-YR TREASURY BOND 2.41%

Staying in the Game: A Visual

Full Disclosure: the market will go through significant drops from time to time, and we'll have no advance notice beforehand. Our goal is to keep you invested through both good and bad markets.

Consequently, the most crucial number we need to get right before investing your money is your asset allocation – the mix between stocks, bonds, and cash. We place so much emphasis on this figure because it is determined by how much risk you can tolerate when the stock market takes a turn for the worse.

If we choose an asset allocation that is too aggressive, there is a risk of panicking when you experience losses larger than you can handle. The key is that we get your allocation right from the outset and stick with it for the long run.

I tend to be a visual thinker so I created a hypothetical scenario to show the importance of finding your proper allocation, rebalancing back when necessary, and helping to keep you invested.

Imagine it's 2004 and we have a new client named Johnny Client (clever, I know) who has \$100,000 to invest. After a lengthy back-and-forth, we decide that Mr. Client should invest in 60% stocks and 40% bonds (a 60/40 portfolio) because he cannot handle more than a 25% drop (historically, the worst drawdown for a 60/40).

However, Mr. Client ignores the downside wanting to maximize his returns and insists on investing all of his money into the stock market (a 100/0 portfolio, labeled **A** below). For the first 3 years, Mr. Client does very well, handily beating the 60/40 portfolio.

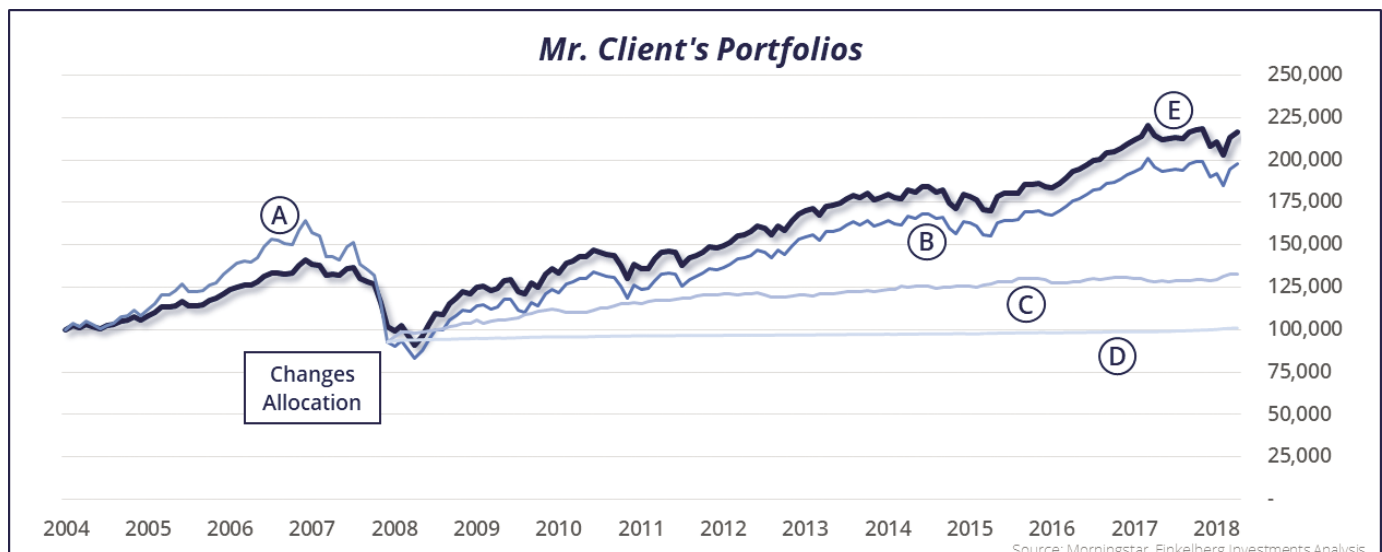
But 2008 comes along, and the market plummets. Unfortunately, but understandably, Mr. Client calls and says he wants out; he can't handle the losses anymore, and he wants to change to a more conservative allocation. One of three scenarios usually plays out:

1. We go back to the originally intended 60/40 portfolio but rebalance at the lows of the market (labeled **B**). By 2018, his portfolio is worth \$197,000.
2. Mr. Client overreacts and gets out of stocks completely. He decides to switch to an all bond portfolio (labeled **C**). This portfolio is worth \$133,000 today.
3. This is the worst situation of the three; Mr. Client has such a visceral reaction to the losses that he doesn't want any volatility in his portfolio at all and wants all of his money in T-bills (labeled **D**). After 15 years, his portfolio earns only \$1,000.

Take a look at the 60/40 portfolio again (the shaded line, labeled **E**). Notice that it's the best performing one over the 15 year period, turning \$100,000 into \$217,000. Paradoxically, by investing too aggressively, Mr. Client actually had lower returns. He overreacted to large losses and sold at the bottom of the market. Because of this, all three scenarios showed permanent losses of money versus the 60/40 allocation.

This is precisely why we work so hard to get your asset allocation right from day one. So when we go through the next market decline, the drop won't be fun, but we will be emotionally prepared to weather the storm.

All the best! -Davis



Past returns are no guarantee of future results. This is a hypothetical scenario used for illustrative purposes only.

2019 CFA Forecast Dinner

The 2019 CFA Forecast Dinner was held on February 28th at the Country Club of Jackson. The four hundred person crowd was treated to a delicious meal, lively fellowship, and an informative panel of speakers. We were delighted to visit with all of you who joined us for the evening. For those of you who were unable to attend this year, we certainly missed you and we hope that you will be able to join us at next year's event.



Out of Town Visitors

D.W. of Bay Springs, MS
G. and R.F. of Natchez, MS
L.N. of Birmingham, AL

Special Birthdays

100 - J.M. of Madison, MS
96 - C.B. of Pickens, MS
95 - E.W. of Clinton, MS
93 - L.S. of Clinton, MS

Happy Anniversary!

66th - J. and R.E. of Natchez, MS

Reminders

- If you have not yet made a contribution to your IRA for 2018 and plan to do so, you still have time. Contributions may be made up until April 15th.
- Are your IRA beneficiaries up-to-date? Please let us know if you would like to make any changes to your primary or contingent beneficiaries.

Until next time,

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