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Investors should practice, train just like Olympic Athletes

By Brian Loy, CFA, CFP
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Olympic athletes practice and train for years. Then with dedication, determination and skill, they lay it all on the line in competition. We revel with their victories and sympathize in their mishaps. In skating, we're inspired by the come-from-behinds of Joannie Rochette, who lost her mother only days prior to her event, and surprised with upsets by Evan Lysacek. Rochette's bronze truly outshined "Platinum" Plushenko's silver.

And for investors, not running out of money in retirement is what counts. We don't necessarily need to win the gold… bronze will suffice. We just need to stand on the medals platform.

Accepting greater responsibility for their financial futures, more Americans are expanding their capacity to make great decisions whether they do it themselves or with the assistance of professional advisors. Unfortunately, they may have found themselves in places they'd rather not be. Other than bad investor behavior (e.g. speculation, greed, fear, etc.), I feel part of the blame may lie in a traditional approach to investment strategy. I suggest an alternative and more relevant approach.

Have you ever been asked "What's your risk tolerance?" Traditionally, do-it-yourself investment tools and advisors have attempted to assess attitudes about risk. Then, determining if one is a low, moderate, or aggressive risk taker, an "appropriate" investment strategy is recommended.

I challenge that approach. How can you accurately quantify someone's "risk attitude or tolerance?" Depending on how the questions are framed, a conclusion might be "I'm an above-average risk taker." I then become suspicious and take a second look. Most people don't like to gamble with their finances. "Brian, a 10% return, guaranteed, would be great!" It certainly would – but it's unrealistic and is a good example of the natural tendency to avoid loss. It's time for a reality check… to accept reasonable return expectations, and to educate about risk.

Alternatively, what if the investment plan was driven by the investors' goals? Not vice versa. Not, "Oh well, our portfolio has declined so we'll live with less." Instead, stand firm with your committed goals, and adjust the investment plan. Sure there might be some fine-tuning (e.g. save more, defer the retirement party for a year or until I've got my hobbies and next-role-in-life in place, etc.)… adapt the training regimen.

An important lesson I've learned from this crisis is to better drill down, clarify and prioritize investors' financial goals. (And of course, have appropriate investment strategies to help smooth the inevitable crisis du jour.) And more specifically, define the "Need to Have" vs. "Great to Have" goals to better reflect acceptable ranges or levels of retirement lifestyle (e.g. No-frills/Not-living-under-a-bridge vs. Caviar-dreams-and-champagne-wishes, as relevant and personal to the investor).

Even in these challenging times, how would you feel if your minimum goals remain achievable? Would normal breathing resume and life become more enjoyable? What do you need to do for your greater goals to become a reality?

Whether or not these athletes return to Sochi in 2014, they have a lifetime of more perfect practice. Investors do too.