



Kurt G. Krumholz, CFP

## Your Practice

# Successful investing in today's marketplace

By Kurt G. Krumholz, CFP, Principal, Director of Services  
for SVA Planners, Inc., Registered Investment Advisor

**W**ith the stock markets in a state of decline over the past three years, many people are reviewing their investment strategies to better position themselves for future financial success.

The stock markets experienced their third consecutive annual decline in 2002. This hasn't happened since 1941. Conversely, the bond markets provided some relief in the form of positive returns as interest rates fell to levels not seen in decades. Overall, though, most investors have seen their portfolios decline in the past few years. The degree of decline was determined by the amount of investment in under-performing sectors of the marketplace. For example, if an investor had a large concentration in technology stocks, they would not have fared as well as someone whose investments were concentrated in small company value stocks.

In the future, many factors will impact how quickly the markets recover. Issues such as corporate misconduct, threats of terrorism, and potential war with Iraq, can negatively affect the markets. Positive

indicators may include low interest rates, improved corporate earnings, higher productivity, and a possible economic stimulus plan.

Because no one truly knows what the future holds, investors are encouraged to follow five simple guidelines to determine an appropriate investment strategy for now and the foreseeable future:

- *Identify your financial goals.* Be realistic and specific in determining what you want to accomplish in your financial future. Strategically assess what you envision as a comfortable retirement or education objectives for your children. Also, make sure you are comfortable with your current insurance coverage. Finally, review your estate planning documents to make sure they reflect your wishes in the event of death or incapacity.
- *Evaluate your investment time horizon.* Your investment strategies will depend on how far into the future it will be before you reach your financial goals. Generally, you can be more aggressive for goals that are 10 or more years off, while you should be more conservative with goals occurring within just a few years. To the extent you need current income, you simply shouldn't take a lot of risks with this portion of your portfolio.

- *Assess your financial resources.* Considering your existing financial assets and ability to set aside current income to fund your goals, assess what resources you have at your disposal and prioritize them with your established goals. You should also review your overall plan to take advantage of tax saving strategies, such as qualified retirement plans. Also, investigate income-generating alternatives, including additional employment income or inheritances.
- *Determine your risk tolerance.* Regardless of the time and magnitude of your goals, you may not be comfortable with an aggressive investment strategy. The key is to understand that there are risks associated with virtually any investment alternative, whether it be stock or bond investments. Your allocation decision should take into consideration the pros and cons of these alternatives. We'd all like to see the return of double-digit returns year after year, as was experienced during the late 1990s. However, you shouldn't plan on those types of returns in order to achieve financial success. By taking a fresh look at your overall risk tolerance, you can better determine the appropriate investment strategy in today's market conditions.
- *Diversify your portfolio.* Once

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Krumholz was named to Mutual Funds list of "100 Great Financial Planners" in 2001 and 2002. He was also selected as one of the "150 Best Financial Advisers for Doctors" by *Medical Economics* in 2000 and 2002. He can be reached at 1.800.279.2616.

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you have a clear understanding of your goals, time horizon, financial resources, and risk tolerance, you can focus on diversification strategies. Diversification is the term used for allocating your investments among different types of securities in order to achieve more consistent returns over time.

History suggests that diversification is an appropriate wealth-building strategy that allows an investor to build funds when markets are up and preserve capital when markets are down. Diversification also provides greater peace of mind—knowing you don't have all of your financial assets concentrated in just one area of the market. This type of strategy is employed by most institutional investors and coincides with the advice of Daniel Kahneman, the renowned Princeton psychologist and winner of the 2002 Nobel Prize for Economics.

These simple guidelines may put you on the path to financial success, but you are not done yet. For your plan to be successful, you need to implement the plan and monitor your portfolio periodically to make sure it remains consistent with your objectives. Even the best-laid plans mean nothing unless you take action and review the portfolio from time to time. Investment management is a dynamic and ever-changing process, but the rewards can be great if you make it an ongoing part of your financial life.



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