You Would Not Swim Without a Lifeguard,
So Don't Ride the Waves of the Financial Market Without a Planner

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WHO NEEDS AN INVESTMENT ADVISER?

Do you need an investment adviser?

Great question. In my last article, I discussed how people might lie to themselves when they assess the level of risk they are comfortable taking to meet their goals. That being said, there is no doubt you can manage your own investments. The better question is: What will be your results? If you make a bad investment decision, you won't die, but you could certainly lose money and maybe a lot of money.

An easy way to look at this is, you know how to swim, but do you swim in the ocean when there are no lifeguards on duty? It's 5pm and the lifeguards leave the beach at day's end after making everyone get out of the ocean. You are comfortable going back into the ocean since everyone else is still on the beach and doing the same thing. What I'm talking about is, will you go swimming when there is no one else on the beach? If so, what happens if you get caught in a riptide? Will you panic, or will you remain calm and swim parallel to the shore until you escape the current? If you make the wrong decision, you are putting your life at risk.

Over the last nine years, we have had one of the most extraordinary stock-market runs in history. Maybe it feels a little like the dot-com bubble we experienced from approximately 1997 to 2001. Ah, you remember the dot-com bubble. No matter what stock you purchased, the share price seemed to go up and you made money. You were an investment genius and certainly didn't need any help. Back then and even now, people invest in markets believing they will continue to rise as if there is no risk. Well, volatility is certainly back in the markets. How did you do?

Back in the dot-com bubble, we also started to hear about day traders. There were commercials discussing how people quit their jobs and traded stocks for just a couple of hours per day and made more money than they had in their old day job. There were also a lot of people who lost money and wealth during that time. How did you do?

When you invest, do you find yourself saying, "I always seem to buy at the wrong time"? Maybe you are the one who buys when the market is high, then panics and sells when the market is low. You are not alone. Maybe this time it will be different, or will it?

It is not always about the total return of your investment. It's about what you keep. If you need money, it will depend on what you sell and what your tax consequences are. Did you hold the investment long enough to pay capital-gains tax or will you have to pay ordinary income tax?

Do you try to time the market? You know it doesn't work, but you will continue to try. You want to buy low and sell high. It generally doesn't work, and you wind up keeping the stock way too long because you know it always comes back. How did that work out?

Maybe you look at the top performing mutual funds from last year and you buy them. The funds might have returned double digits last year and you believe it will happen again. Chances are, it won't. Several years ago, during the Great Recession, I was meeting with a group of employees who complained about their lousy company retirement plan. I reviewed their mutual-fund lineup and told them they had a great selection. I asked the four disgruntled employees to get their 401(k) statements so I could review it with them. Amazingly, all four employees had the exact percentage in the same mutual funds and were all down more than 50 percent. They had each invested in the top performing mutual funds from the year before. I asked who chose the funds and percentages, and three employees looked at one guy. His idea was to choose the funds in the plan with the highest returns. It didn't work out the way they planned. How did you do?

Maybe you think in the now and not the future. You continue to buy and sell in your account to get the highest return. Face it, you are a trader and not an investor. Chances are, it won't work out the way you hoped.

Perhaps you design your investments based on a newsletter or an advertisement you have read touting the secret to obtaining wealth. Face it, if someone had the secret of how to turn thousands into millions, it is doubtful they would share their information with you or anyone else. They did find the secret to wealth, and that was selling you a subscription. If it seems too good to be true, then run away.

Maybe your portfolio has done really well, in fact so good that you can't change it. You never rebalance your investments. Big mistake. As the markets continued to hit new records, you did great. When the markets fell, you became paralyzed and didn't do anything. You keep telling yourself that the markets will come back. Maybe they will. How did it work out for you?

Maybe you got burned during the Great Recession and never got back in the markets. You kept your money in a savings account paying next to nothing. You keep telling yourself that you will jump back in the markets, but you're paralyzed and afraid to pull the trigger. How did that work out?

If you are happy with what you have done over the past 20 years, then maybe you don't need an adviser. Just think about all of the money you saved not paying for advice. Did you really save money?

If any of the above seems familiar to you, then you might benefit from meeting with an investment adviser. It is a misconception that only the wealthy use advisers. Choose a fee-based adviser. You can have someone review how you are invested and validate your strategy, or they will suggest changes. You can choose to work with one on an hourly basis or you might be better off having them manage your investments. Chances are that they will earn their fee, which should equate to your investments doing better.

If you choose to have your money managed, make sure you do your due diligence. The average fee should be around 1 percent and possibly lower. Remember that the adviser benefits when your account values go up and loses money when your account values go down.

Think of advice like the song, "With a Little Help from My Friends," originally released by the Beatles in 1967. It was also covered by Joe Cocker and 56 other recording artists. The idea is the same. Advisers, like musicians, might have a different version but the message should be the same.

Now that you are feeling more secure about your investment decisions, grab your book, chair and cooler and head to the beach. Don't forget your hat, glasses and sunscreen.

Make it a super summer!

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