ARTICLE:

Managing Assets in a Changing World: How to give your portfolio the attention it needs

By Keith M. Lichtcsien, CFP®, AEP®

Savvy people know that doing the same thing over and over can get you the same result. These days that is probably not the result one desires. Our ever-changing global economy requires a more proactive approach than ever before. As soon as affairs are left to chance for a few months or a few quarters, it's as if you've stopped while the world kept moving. It's far too easy to miss a chance or a challenge in time to right the course.

Here are some key factors to discuss with your advisors:

- Consider the impact of rising taxes as they apply to dividends and capital gains. Discuss effective tax loss harvesting with your advisor. Pay careful attention to tax triggers that may result from recommended transactions. Learn how to quantify the inherent trade-offs between effective investment strategies and tax consequences.
- At some point, we are likely to experience rising interest rates. Since 1980, we've had a bull market in bonds as interest rates went from all time highs to their current lows. It's important to evaluate your bond portfolio in light of a potential bear market in bonds. Review the quality, location, call provisions and duration embedded in your current portfolio or future choices. Bond portfolios are exposed to default risk, interest rate risk, reinvestment risk and of course the risk of loss of purchasing power. On 11/3/10 the fed announced QE2 (2nd round of quantitative easing). Economists predict this will result in an extra $trillion being circulated. Most people view this as contributing to inflationary pressure. Make sure you are evaluating all these risks and are not over-weighted in bonds.
- In the municipal world, there are risks that most people have not considered. With state and local governments unable to balance their budgets, there will likely be ramifications to muni-bond holders.
- Broaden your perspective on diversification. In the past, owning a basket of equities may have been sufficient. Today, that is just plain irresponsible. To be a successful investor requires application of specific disciplines.

- We haven't experienced significant inflation since the 1970s. We experienced inflation of 7.4% per year in the 70's. That means prices doubled in 10 years or stated differently, the dollar lost half its value. Talk to your advisor about the potential impact of inflation on your portfolio and how to hedge against this ever present insidious risk. QE2 was mentioned earlier in this article.

- Consider what may happen if the dollar erodes in value. If you do not already own stocks of companies based outside of the United States, discuss the potential applicability with your advisor.

- Estate Tax laws will change January 1, 2011. This will have a major impact on most families. Future liquidity needs may influence current risk tolerance. Meet with your financial and legal advisors now to prepare in advance.

Remember, in today's environment, old approaches to investing, such as buy and hold forever, may not work well. Sadly there is a void of knowledgeable leadership available to most families with important assets. Every portfolio needs regular proactive attention, but most do not receive it.

As always, please feel free to call us at 216-765-0121 regarding this or any planning related questions.