Stay savvy about investing, plan for market conditions

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Unstable equity markets, setbacks in the economy and increased unemployment can push anyone's investment strategy off course, as intense feelings of uncertainty cause second guessing.

The fact is, no one truly knows what stage of the correction the market is in and when things will begin to improve.

What is known is that each correction is unique and the unprecedented coverage of this correction in the media has fostered negativity and doubt among even the most patient and knowledgeable investors.

What these times do show is the importance of having an investment plan in place. The key is not reacting to market conditions, but planning for them.

The financial advisor. This calls for strong investment advice and forward thinking about objectives and risk. Choosing an advisor, however, can be difficult.

Trusting your advisor during these market environments is crucial. This person should have a long history of successful and ethical investing as well as a clear understanding of your specific needs and goals.

But how do you find and choose this person?

Begin by asking friends, colleagues or family for referrals. Make sure you interview multiple advisors and request client references, including a longstanding client as well as new one, to obtain a better sense for the advisor's style, performance and service continuity over the years.

Some additional questions when interviewing a prospective advisor include the following:

• Does the advisor or team share your investment philosophy?

• Are they willing to teach and explain all aspects of the planning and investment process?

• How often does the advisor meet with clients?

• Does the advisor provide you with a written investment policy statement?

• What is the fee-for-service structure?

• Will the advisor speak with the other professionals in your life, such as a CPA/accountant and estate attorney, for a more cohesive plan?

• Have you reviewed the advisor's compliance record on the FINRA website?

• Who prepares the firm's account statements and how often are they distributed?

• Who is the custodian of the account assets and do they offer online account access?

Planning strategies. Once you have selected your advisor, work with him or her to create an asset allocation plan and investment strategy that you can adhere to. Personal risk tolerance, time horizon and investment goals should dictate your asset allocation.

It is critical that you share with your advisor your full financial picture in order to allow him or her to provide you with appropriate guidance. Only providing partial insight to your financial picture is detrimental to both parties as the recommendations are based on an inaccurate picture.

During a down economy, it is critical that you remain organized. Many clients have multiple accounts with many different brokerage firms, fund families and transfer agents. This, coupled with numerous employment changes and life experiences, provides opportunities to generate assets in various accounts.

Over time, changing jobs, getting married, divorcing, having children or failing to consolidate retirement plans or investments can lead to people losing track of accounts.

The investments and values of all accounts, regardless of size, should be considered during planning. Your overall plan must be inclusive of all investment accounts as a whole regardless of their physical location.

You should also retain a cash cushion in a liquid savings or money market account of at least six months of household expenses.

For some, this amount may seem daunting to accumulate, but selling equities during market weakness in order to raise cash for living expenses can be detrimental to a portfolio's long-term success.

If this market has taught people anything, it is that cash too is indeed an asset class.

Common mistakes. Never allow market conditions to dictate your allocation. Allowing your emotions to drive your investment decisions and actions can result in panicking and selling portfolios during negative markets.

This mistake can lead to attempts at market timing. During market turmoil, everyone wants to avoid the negative days, but it is imperative to be part of the positive days.

Even the best investors cannot consistently time the market over the long-term, thereby missing essential positive days in the market in a given year.

Continue to review your plan and remember that discipline is the foundation to reaching your financial goals. In order to avoid common mistakes, be sure you fully understand your investments.

If you are having difficulty understanding the investment vehicles being recommended, ask additional questions. Research and educate yourself on products or funds that may lack transparency or present liquidity restrictions or possible penalties for early termination.

Do not assume your profession and level of success within your vocation directly translate to being an equally successful investor. Some people achieve such personal and financial success that they believe it translates to investing and planning.

Halting or discontinuing a 401(k) plan, 529 plan or investment portfolio systematic contributions and purchases is also generally discouraged unless your circumstances have changed markedly.

Many people cease making contributions when they see the value of their portfolios dropping in order to avoid losing money during market declines.

What they fail to realize is buying more shares during the down cycles provides opportunities for the portfolio to recover far more quickly.

Be cognizant of overlap in holdings and investment styles. Many seemingly different mutual funds often hold the same securities or have substantial overlap of equity names.

When creating your portfolio allocation, dig deeper and research each mutual fund you hold either independently or within your company's retirement plan. Review each fund's stated objective and style of investing.

The need for representation across multiple asset classes is vital. Avoid selecting funds based strictly on recent market performance. Review the fund's full one-, three-, five- and 10-year investment results in comparison to its peers and stated benchmark.

Conclusion. Create a plan that is customized to your needs, goals, risk tolerance and time horizon. This recent market correction shows how even the most sophisticated business people and investors can make severe financial missteps. Your relationship with the right advisor can greatly improve your opportunities for success.

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