



Investment Insights

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Rehabilitate Your Portfolio

With the stock market down substantially from the highs reached three years ago, many investors have decided that inaction is the best course of action. Reviewing monthly statements has been painful enough, so the prospect of making important investment decisions seems overwhelming. Yet however difficult the thought is of addressing the troubles your portfolio has suffered, now may be a critical time to evaluate your investments to ensure you are best positioned for what lies ahead.

A widespread argument against making changes to a portfolio now is the fear of giving up on investments when they are down substantially from their high points. Although one should try to avoid the mistake of buying high and selling low, this axiom clearly doesn't apply now given the fact that the broad markets have declined significantly. In essence, although you may be selling low, you are also buying low. The opportunity to trade in your stocks or mutual funds for higher-quality, more appropriate investments is one of the silver linings of a broad bear market like the one we've experienced the past few years.

Another common refrain is the notion of waiting for an investment to return to the value where it was originally purchased before selling it. This is the 'I know it's a lousy company (or mutual fund), I'm just waiting to get back to even and I'll sell it' line of thought. Again, one of the great opportunities within a bear market is the chance to upgrade your portfolio without having to pay up to do so. Although that hot internet stock you bought on the advice of your neighbor is now down 80% from your purchase price, so are many of the largest technology companies you've always coveted. Which one do you think will recover faster when the markets improve, the highly desired blue chip company that dominates its market, or the questionable company with little or no revenue or earnings? Because it is likely that both have declined significantly over the past few years, you now can make a fresh choice between the two, and allocate your money accordingly.

Although losing money isn't fun, it's even worse to not take part in a recovery when one happens. By sticking with investments that are inferior or inappropriate for your

investment strategy, you run a real risk of not fully participating in the eventual resurgence in stock prices. In this case, ignorance is not bliss.

The first step in rehabilitating a portfolio is to start with a clean mental slate. Don't feel constrained by your past choices and their current condition. Use the broad decline in the majority of stocks as a chance for a 'do-over'.

Step two is to take time to truly identify and understand your tolerance for risk and your financial goals. This is by far the most important use of your time when it comes to investing. Too often, people spend time reading prospectuses and annual reports before they've given any thought to their own goals and financial picture. When do you want to retire and what do you need to do financially to make that dream a reality? How will your children pay for their college education? How can you pay less in taxes and save more money every year? Spend time thinking through these issues before investing so that you choose suitable investments, and have clear expectations going into them.

The final step in rehabilitating your portfolio is to compare the financial goals you've identified with the investments you currently own. How appropriate are your current holdings relative to your goals and risk tolerance? Chances are, you will clearly see that some changes need to be made. These changes have nothing to do with the viability of your current holdings, they are driven solely by your individual situation. However, the time may be right to make these changes for all of the reasons outlined above.

Take advantage of the current market conditions to whip your investments into shape. When the recovery comes, you may be much better off for it.

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