

WEST SIDE NEWS

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Your Money, Your Business

By *Derrick Jones*

The Herd Gets Burned . . . Again

What will be the next 'big thing' to distract you from a sound investment strategy?

It was energy stocks and junk bonds in the '80s, tech stocks in the '90s and now it is high-yield debt investments, many of which are wrappers for sub-prime mortgages. What will be the next trend investors start chasing instead of maintaining a diversified portfolio that follows a sound asset allocation strategy? I wish I knew so I could warn clients away from it now.

Chasing the next big thing is a recipe for disaster. Accumulating wealth takes time, patience and a strategy. You cannot do this if you stay focused on day-to-day shifts in the market in order to move your assets into "winning" investments. After all, investing in something is making an affirmative decision that you want to own it. Consequently, you should invest in things you understand and only after having confirmed its qualities.

Recent troubles in the sub-prime mort-

gage market have made asset allocation an acceptable topic of conversation again. People who, just a few years ago, could not be sold on an investment grade bond paying a market rate of interest are now re-thinking their investment strategy. They are wondering if it is really a good idea to follow the herd in search of "hot" investments. After all, this "hot" strategy burned herd investors because they became too heavily invested in a single asset class – and the herd investor's response is to speculate about the next big thing, instead of stepping back and looking at the big picture.

That's the beauty of having a sound asset allocation strategy that is nimble enough to take advantage of economic cycles but provides enough structure to prevent joining stampedes. You may want to look at rebalancing your portfolio on a regular basis, but the overall strategy remains the same, which is to spread your assets over several investment classes such as stocks, bonds and short-term investments – and deciding you only want to invest in things you want to own!

When developing an investment strategy, ask yourself these questions:

- How much time do I have? How far out on the financial horizon do I foresee moving from the accumulation phase to the distribution phase?
- How much risk can I afford – not just financially, but psychologically?
- What is my current financial situation? And given this, what are reasonable retirement goals for me?

The prudent investor is one who understands how much risk he or she is willing to take, knows where he or she stands today and has clear and attainable financial goals for the future. Usually, this investor relies on a financial advisor to develop a strategy that will make it more likely those financial goals are attained. I might also add that the wise investor does not necessarily read the financial pages and never worries about what the market is doing on any given day, knowing that reaching the long-term goal may have ups and downs along the way.

Having the right asset allocation strategy can help you maintain your investor confidence no matter what happens in the market. Buying quality investments for the long haul is not sexy – it does not make for interesting cocktail party conversation – but it beats seeing the value of your holdings plummet because you did not spread the risk across a well-diversified portfolio. Harry Truman reminded us that, "There is nothing new in the world except the history you do not know."

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