Beware of the Bear Selfie

We all know the old proverb “Curiosity killed the cat,” but we might need to create a more updated version. A man in India was mauled to death by an injured bear on May 2nd, 2018. That alone may not be enough to create a new proverb, however, the man was trying to take a “selfie” with the bear when he was attacked.

Modern life brings with it a myriad number of distractions. It’s easy to feel safe and secure, we have access to amazing products and a wealth of information. Oftentimes the ease of taking that selfie, makes us forget the very real danger of the bear.

The world can be a treacherous place and some people assume a variety of risks in their everyday lives just to get through the day, enjoy life and fulfill their dreams.

Fortunately, most people can handle these risks without dwelling on all the possible negative outcomes. Many people get behind the wheel of a car, board an airplane, embark on a new career, retire, and vacation internationally in pursuit of life and leisure. Most selfies don’t involve bears or intense risk.

The fact is most people accept life’s risks in stride. It’s easy to ignore the danger of the “bear selfie”. Until you enrage the bear with the wrong angle.

Ignoring risk in the financial world can be dangerous as well. One risk in the financial world is inflation. Inflation isn’t threatening on a year-by-year basis, but the cumulative effect can have a negative effect on investment portfolios and personal lifestyles. Successful long-term investors usually can look beyond today’s headlines and focus on the future.

They use volatility in the investment markets as an opportunity – a tool to create wealth. Some of the top financial experts, like Sir John Templeton, Warren Buffet and Peter Lynch view investment opportunities with a long-term time horizon and stay committed to their convictions throughout various market cycles. Investors sometimes panic. Panic can lead them to abandon stocks too early in their investment life cycle.

Another potential financial risk involves outliving your savings. Over the past few decades life expectancies have lengthened. Investment time horizons need to adjust as well. Today, a couple in their early 60s, can expect to live possibly another 20 years. There is also the high probability of one of them living to age 90.

That’s a 20 to 30-year investment time horizon! Portfolios need to continue growing during this period. Sometimes the risk doesn’t seem as obviously dangerous as a bear. Living longer is a good thing!

Yet, even good things require additional planning. Exposure to the equity markets is necessary to combat inflation and maintain current standards of living. Growth assets can possibly build wealth over time and create desired lifestyles for investors and future generations.

Unfortunately, the average investor often employs a shorter investment time horizon and struggle to remain committed and patient. They see the opportunity for the great selfie, a picture that can only be captured in this moment. They miss danger of the bear because they are chasing the moment.

Constant "breaking news" delivered via smartphones and 24/7 financial news networks have reduced many investors into a new generation of short-term traders. With the focus on getting that great shot, the once in a lifetime moment, the long-term benefits of not getting mauled by the bear are forgotten. Hot stock tips, financial windfalls, cryptocurrencies – every day a new shiny selfie-like temptation.

While there is always the temptation of the moment, of the selfie experience, many individuals are looking for safety and security long term from their investments. This requires solid returns from their investments to properly prepare for a well-deserved and comfortable retirement.

One tool that I use with my clients is the Color of Money Risk Analysis. The Color of Money Risk Analysis assesses your financial picture and provides a roadmap to your overall risk preferences. The output will be a proprietary Color of Money score. This short, interactive analysis is the first step on the road to retirement.

The Color of Money Risk Analysis allows you to step back from the distractions, step out of the moment and evaluate your personal risk preferences.

In addition, there are three questions that are good for you to ask yourself when determining the amount of risk, you should take on.

The first is: **"When do I want to retire?"**

Both your age and your timeline for meeting specific goals should be considered when evaluating your tolerance for risk. If you are young and have a long time to meet your goals, you may have a higher risk tolerance than someone who is nearing retirement and counting on a steady investment income to last for many decades. Other factors that determine your ability for risk are your personality, life experiences and your current financial situation.

- High Risk Tolerance – These investors can tolerate the short-term volatility of riskier investments, like stocks, because of the long-term returns those investments typically provide.
- Medium Risk Tolerance – These investors typically have an even mix of investments that will likely grow in value, such as stocks which provide higher risk, and bonds which provide lower risk.
- Low Risk Tolerance – These investors are conservative and typically will put their money in lower risk investments that will provide a steady stream of income without the prospect of high returns over time.

The next question is: **"What are my financial goals at retirement?"**

Your financial goal or "magic number" will also play a part in your ability to take on risk. For example, if the level of risk you are comfortable with manages your investments at a 4 percent return and you need to realize an 8 percent return, your income needs aren't going to be met when you need to rely on your investments for retirement income. You may need to look at other options that offer a higher growth rate. However, this could be coupled with the possibility of substantial losses.

And finally: **"What's my ability to handle a financial loss?"**

Your emotional ability to handle a financial loss is an important factor as well. If you are likely to pull all your money out of an investment due to a dip in performance and then get back in when the market performs well, you have a low risk tolerance.

Discussing your goals and risk tolerance with a financial professional will help you determine the ideal path and process to utilize in reaching your retirement goals. This will allow you to see the value of the moment, or the lure of the bear selfie and the true long-term danger that temptation may possess to your future financial goals.

Curiosity may have been bad for the cat. The bear may have been bad for the selfie. But knowing your risk preferences and exposure may be nothing but good for your financial planning future.