# HOW SHOULD YOU RESPOND TO A FINANCIAL CRISIS?

iQ2 Private Wealth

Are you feeling "financially seasick"?

Over the last few years, global financial markets seemed to have lurched from one financial crisis to another. Investors have been tossed around like corks in a stormy sea and could be forgiven for feeling a kind of "financial seasickness". Investors lulled into a false sense of security by years of strong returns and unusually low volatility in markets prior to 2000, have had something of a shock as the reality of the underlying investment risks has suddenly shown up again in the years since. What's important here?

**1. Look to the Horizon**

Remember your long term plan

As with sailors, the best advice for investors feeling seasick is to "look to the horizon". In other words, remember your long term objectives and stick to your plan for achieving these. If your investment strategy is sound, you can ignore the any "crisis", knowing that what happens for the next month or even the next 24 months is not going to impact on your long term plan.

**2. Understand that You are Likely to be Your Own Worst Enemy**

Don't let fear take over

If you don't have a long term plan, then get one now because without the discipline that comes from a long term plan, fear and greed will take over. And, the greatest of these is fear. One of life's most unpleasant experiences is finding yourself outside your financial comfort zone and wondering how you got there.

**3. Make Sure You Are Being Properly Compensated for the Risks You Take**

Check your risk-return equation

Higher returns require higher risks but not all risks are worth taking. One of reasons that the markets are so volatile at the moment is that risk is being re-priced to more normal levels after a period of growing complacency. Likewise, make sure you are being adequately compensated for the investment risks you take.

**4. This "Crisis" Too Will Pass**

This crisis will soon be forgotten

A crisis in global financial markets is often triggered by unexpected events that move the herd sentiment of investors from greed to fear. Unrelenting volatility and drops become the order of the day but remember that rising bull markets start when investor confidence has finally collapsed. Crisis's pass and the markets rebound sharply just as most investors have given up on this ever happening

**5. Rebalance & Look for Opportunities**

Look for bargains or at least rebalance

For those who have the cash, a crisis provides opportunities to buy good assets at bargain prices. For others, disciplined rebalancing of their portfolio when the cycle ends will enhance returns by shifting funds back into beaten down investments. In other words, volatility is the friend of the disciplined long term investor who lets the markets work their unpredictable growth miracle and leaves the worrying to others!