

Prepare for market fluctuations with a



**A Plan to Minimize Panic and Reinforce Long-term Thinking
When Markets Fall**



PANIC PREVENTION PLAN

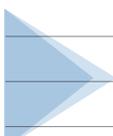
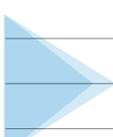
- ▶ The greatest destroyer of wealth is short-term circumstances frightening people out of their long-term plans.

When I experience stress that threatens to affect my long-term investment strategy, I will:

- 1 
- 2 
- 3 

- ▶ Crisis equals opportunity.

When our investments decline we are going to take steps to take advantage of the current climate:

- 1 
- 2 
- 3 

▶ CLIENT'S NAME _____ SIGNATURE _____ DATE _____

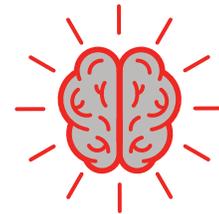
▶ ADVISOR'S NAME _____ SIGNATURE _____ DATE _____

Stress causes clients to make emotional (usually fear or panic based) decisions during difficult market periods – decisions that often come at the cost of long-term performance.

Behind stress there is usually fear – being afraid that something is going to happen. Fear can lead to panic. Panic can cause us to act irrationally and immediately.

Fear is being afraid of falling in the water. *Panic* is the feeling of drowning.

The worst decisions, both by individuals and markets as a whole, come during **panics**



How do we help clients overcome this? How do we make investing less stressful?

Make a Panic Prevention Plan. Engage the clients in the development of the plan (or contract).

Have them sign the plan. Remind them of the plan when markets go awry and investors panic.

This *Panic Prevention Plan* can be effective because it:

- 1 It prepares clients for the inevitable scary moments. This preparation is the primary means of preventing fear from turning into panic.
- 2 It helps clients recognize when they are feeling stress, and gives them techniques to reduce that stress to a manageable level.
- 3 It contains actions that take advantage of market turmoil to actually improve long-term performance.

Five Steps to Implement the Plan

▶ **STEP 1: Acknowledge the Bad Times**

- 1 Review a growth chart of an investment. Point out the declines and what drove them during the past.
- 2 Hypothesize about the future. Brainstorm a bit with the client. Discuss possible events that may drive future short-term declines. A list can include, but is not limited to:
 - Recession
 - Currency fluctuations
 - Commodity/energy problems
 - Investing style is out of favour
 - Health scares
 - Terrorist attacks
 - Natural disasters

▶ **STEP 2: Explain that Emotions can Cause Bad Decisions**

Reacting to market declines with emotions is detrimental to long-term performance. Using this plan helps everyone maintain their composure when markets fall.

- 1 Persuade clients with a memorable motto that keeps reminds the clients why most investors fail, such as:
 - The greatest destroyer of wealth is when the short term scares you out your long-term plans.
 - The four most dangerous words in investing are “This time it’s different.”
 - This too shall pass.

► **STEP 3: Fill Out Section One of the Plan**

Ask your client what their typical reactions to stress are and how they cope with times of stress or panic.

Some possible questions about stress reactions to ask your clients are:

- 1 “Have you ever found that investing stress has affected your decisions in the past?”
- 2 “What symptoms do you exhibit when you’re experiencing stress? There are many common signs, such as aches/pains, disruptions in sleeping, eating too much/too little, dreams, tenseness, upset stomach, irritability, etc.”

Long-term Focus can Minimize Short-term Stress

Much of investing stress comes from getting drawn into a short-term focus. There are stress-reduction techniques that address this common problem. The key is to broaden from a short-term to a long-term focus.

Some suggestions about stress reduction to include:

- 1 Have the client agree to ignore market news for a set period of time (a week, a month, or even just two days).
- 2 Encourage the client to engage in physical activity to relieve stress (e.g., exercise, meditation or even cleaning).
- 3 Create and review a pre-determined list of reasons to stay the course. This gives the client a place they can return to when markets drop that reminds them of the wisdom of their plan and connects them to a more rational state of mind.
- 4 Review historical so-called market disasters and subsequent market performance. The broad market indices have been remarkably resilient through some of the worst disasters imaginable.

▶ **STEP 4: Fill Out Section Two of the Plan**

Talk to your client about possible actions that can take advantage of downturns. Acknowledge that it can be necessary/advisable to make portfolio changes when markets are volatile.

Turn a negative (bad market) into a positive (buying opportunity). Market downfalls present the best opportunities to boost performance – for those who are prepared.

Some sample actions to include are:

- 1 During a severe market downturn, we will re-balance your portfolio back to the original allocations to take advantage of undervalued asset classes.
- 2 When the market declines 15% from its high we will move X% from our cash position into our equity positions.
- 3 When one of our proven fund managers is underperforming we will look to add new money to the position, since this is an opportunity to “buy low”.

▶ **STEP 5: Sign and Date the Plan**

This final step is subtle, but important. Have the client sign and date the plan; then sign it as a witness. Signing one’s name to an agreement on paper increases the likelihood of compliance dramatically. This process make it feel more ‘official’.

Revisit the plan periodically (perhaps annually) to keep it relevant and up-to-date with the client’s objectives.

Example Plan



PANIC PREVENTION PLAN

ABC Financial Ltd.

- ▶ The greatest destroyer of wealth is short-term circumstances frightening people out of their long-term plans.

When I experience stress that threatens to affect my long-term investment strategy, I will:

- 1 Give myself a three day break from looking at the market. Nothing is going to happen in three days that will have any meaningful effect on my investments.*
- 2 Review the list that I created of reasons to stay the course. Such as my dream retirement home in Florida.*
- 3 Engage in some stress reducing physical activity for no shorter than 30 minutes. Choice of 1) Mowing the lawn, 2) Going for long walk, 3) Riding the exercise bike.*

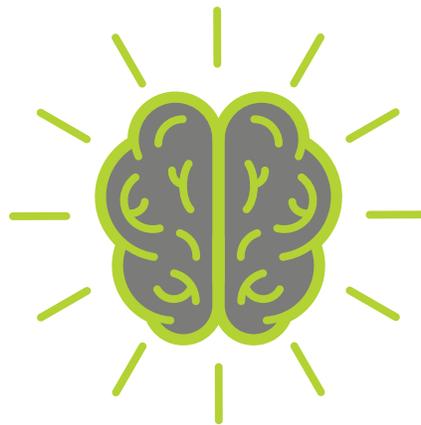
- ▶ Crisis equals opportunity.

When our investments decline we are going to take steps to take advantage of the current climate:

- 1 Scenario: The market declines 20% from its high. We will move 5% from our cash position, and increase our holding in the Global Fund by 5%*
- 2 When one of our core funds is underperforming significantly, we will look to add new money to that position, since we're getting a good manager at a bargain.*
- 3*

▶ CLIENT'S NAME *Francis B. Client* SIGNATURE DATE

▶ ADVISOR'S NAME *Jean D. Advisor* SIGNATURE DATE



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