



Waiting is the Hardest Part

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It's tough to put a dollar figure on uncertainty, but there seems to be plenty of anecdotal evidence that there's a high price to pay for the kind of doubt and confusion now confronting businesses and households. A consumer who considers buying a new car and a CEO looking at building a new plant may both reach the same conclusion due to uncertainty — "Let's wait and see what happens before we spend any more money." Or, as Ben Bernanke, chairman of the Federal Reserve, wrote in a 1980 paper, "Uncertainty, because it increases the value of waiting for new information, retards the current rate of investment."

Indeed, the chart below shows the level of uncertainty in recent years to be at historically high levels. The creators of the index say that uncertainty cost the U.S. economy 2.3 million jobs and reduced real gross domestic product by 3.2% between 2006 and 2011.

If one thing can be said for sure, it's that there's more uncertainty ahead. In Europe, officials are holding summit after summit in an effort to control the euro-zone debt crisis. In the United States, not only is there the usual uncertainty that surrounds a presidential election but tension over whether seemingly intractable sides can reach agreement over such daunting issues as tax rates and government spending, or whether policymakers will send the country over a so-called fiscal cliff. As if that weren't enough, officials in China are wrestling with policies that could mean the difference between a soft landing or a hard landing for an economy that's been one of the engines of global growth for a decade.

A sense of stability

Granted, it's hard to feel in control when the changes in the global economy and the world's markets seem to be so remarkable for their speed and intensity. But there are some things that investors can control and that can help provide a sense of stability in a landscape that seems to be shifting.

- Review your portfolio to ensure that the investments are aligned with your objectives, such as capital preservation, income and growth. Objective-based investing is a disciplined approach that can help you focus on long-term needs and goals, not short-term market conditions.
- Maintain a strategy of investing in strong companies whose management is committed to rewarding investors through dividend payments. A dividend-focused strategy can work well in challenging investment environments; and dividends have the potential to dampen the volatility of an equity portfolio.
- Make sure the portfolio is well diversified. Despite recent issues in Europe, successful long-term investing requires a truly global perspective that takes into account the changing nature of the world's economies and markets. Many companies are increasingly global, and may be poised to benefit from new markets created by an evolving middle class in many developing countries.

How to confront the challenge of uncertainty

What you can control

Identify investment objectives
Establish a holistic financial plan
Select quality investment managers
Employ disciplined risk management process
Review portfolio for tax-efficiency

What you can't control

Outcome of U.S. elections
Market volatility
Global economic conditions
Future of euro zone
U.S. tax policy