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Always Carry Your 'Knife'

How to Survive an Anaconda Attack

BY FRANK FANTOZZI
CPA, MST, PFS, CDFA, AIF®, CEPA
President and Founder
Return on Life® Wealth Partners

Sometimes our natural reaction to a threat is not the best one. While flight can serve us well in certain situations, when it comes to a market correction or even a full-fledged bear market, flight often hurts more than helps investors. The following story explains why.

I heard this story years ago and believe it's still relevant for investors seeking guidance during periods of market and economic uncertainty. So, here goes...

A U.S. Government Peace Corps Manual, once provided to volunteers working in the Amazon jungle, contained a section on how to survive an anaconda attack. The largest known snake in the world, anacondas are reputed to grow to more than 37 feet long and can weigh more than 500 pounds. If you were to come across one, your reaction would probably be similar to mine—run and don't look back!

Many people feel the same way when the financial markets experience a downturn, but herein lies the problem: Like the anaconda, the market is often faster than you. It's also efficient. By the time you realize what's happening in the market, changes have already occurred. ***So, what can investors do?***

Let's begin with the following guidance from the Peace Corps on surviving an anaconda attack:

1. Lie flat on the ground. Do not panic. The anaconda will begin to climb all over your body. Be calm!

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2. After the anaconda has examined you, it will begin to swallow you, beginning with your feet. Stay calm!
3. The anaconda will suck your feet into its body. Be still! This will take a long time.
4. When the anaconda has almost fully swallowed your legs, calmly remove your knife and kill the snake. Once killed, slide yourself out from the snake.

Pro Tip: Be sure you have your knife!

What does this have to do with surviving a bear market attack?

1. If attacked by a bear market—a period characterized by a widespread decline in asset prices – do not run. The bear market is faster than your money.
2. Stay calm as the bear market begins to climb all over your money.
3. After the bear market has examined your money, it will begin to swallow your money. Be calm! This will take a long time.
4. When the bear market has almost fully swallowed your money, calmly remove your knife.

Pro Tip: Be sure you have your knife!

In a bear market attack, your strategy is your knife

Having your "knife" with you at all times simply means to remain mindful of your strategy or long-term plan. Doing so may not only help you stay on track toward your long-term goals, but it may help you avoid poor decisions that could derail your plan.

While diversification does not ensure against market risk, making sure your assets are broadly diversified can play a key role in helping you stay the course. That's because while the performance of one investment or asset class may experience a decline in value, another may be performing well, helping to smooth out overall portfolio returns.*

Unfortunately, many investors allocate investment dollars across different investments based solely on past performance. Not only does this fail to result in a strategically diversified portfolio, it provides no assurance that investments will continue to perform well, since past performance is no guarantee of future results.

Focus on the puzzle, not just the pieces

Pieces	Puzzle
Due diligence	Optimal combinations
Recommendations	Manager bias mitigation
Attribution	Behavior diversification
Manager search and visits	Portfolio creation

Building a well-diversified portfolio that seeks to meet specific investment objectives and risk/return parameters begins with understanding how the different pieces come together to complete the puzzle. This includes steps that may be difficult or impossible for individual investors to accomplish on their own, such as conducting onsite due diligence, fund manager interviews, and attribution analysis to evaluate a fund's past performance record.

The due diligence process helps to narrow a universe of thousands of potential investments into a smaller recommended list that seeks to meet specific objectives.

Selecting individual investments to create a well-diversified portfolio takes a number of factors into consideration. These include investment correlation and overlap (optimal combinations), as well as manager or behavioral biases that can result in deviation from a rational, data-driven approach. Other investment attributes may include:

- Asset class, sector, and region
- Investment style and market capitalization
- Currency and exchange rates
- Geopolitical challenges
- The role of alternative investments, and more.

Lastly, and perhaps most important of all, a strategy designed to weather varying market conditions should be tax-smart and aligned with your individual goals, objectives, and risk tolerance.

The moral of the story: Be prepared with a thoughtful strategy in place, so when the bear market attacks, you will always have your "knife."

*Diversification does not ensure against market risk. All investments involve risk including possible loss of principal. Investors should consider the investment objectives, risks, charges and expenses of the fund or investment company carefully before investing. The prospectus contains this and other important information about the investment company. You can obtain a prospectus from your financial advisor. Read carefully before investing.

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