



Living With Risk on Your Financial Journey

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When talking about exotic places, I will jokingly mention, “I have never been there, but I know how much it costs to get there.” While the statement is not all that accurate, it does give me an opportunity to bring up my oldest daughter and her new husband’s year-long world tour. Not long after they were married they sold all their worldly possessions, outfitted themselves with REI equipment and, with the help of parents, purchased round-the-world airline tickets.

Cheap modern airplane technology made their trip possible by shrinking the size of the world. And cheap modern internet technology allowed them to stay in touch by changing the shape of the world. With the help of Susie (their Macintosh computer) we were able to talk using Skype, write via email, and see pictures on their personal website. However, it wasn’t until after they returned that we discovered that parents got the filtered version of their travels. The more harrowing events were relayed to siblings and friends but were censored from communications with worrying parents.

My favorite of these filtered stories occurred in Beijing. The kids had just finished a tour of the Forbidden City and had exited from the palace grounds into Tiananmen Square. The square was full but, as a light shower grew in intensity, the crowd quickly started dispersing. Having just experienced India’s monsoon season, they didn’t think the rain was all that bad. Sarah was convinced that it must be a bomb scare. Kyle suspected it was the rain driving the people away. Whatever the cause, they eventually were the only ones left in the vastness of Tiananmen Square. As they stood there contemplating their options a police car made its way across the square, stopping directly in front of them. In my mind’s eye the scene of the car and the two solitary figures flashes back and forth with the images we have all seen of the lone man facing the tank. At this point, Sarah turned to Kyle and said, “See! I told you it is a bomb scare.” Getting out of the car the officer approached them, said something in Chinese, and then, to their surprise, he handed them an umbrella, got back in his car and drove off.

Sarah’s and Kyle’s trip was exciting, educational, and rewarding, but there were occurrences far scarier than the one I described where the dangers were real and the calls closer. But just like there was no way for them to take their trip without taking risks, so it is with my clients and their financial journeys.

To reduce exposing themselves to unnecessary risks, the kids got the advice of experienced travelers. As an experienced financial traveler, my advice is similar to Russ Wiles, of The Arizona Republic, who wrote in a recent article titled Embrace Risk, “Don’t try to beat the market by picking individual stocks. Don’t try to time the market. Be skeptical of market and economic predictions. Watch expenses.”

However, there was no way for the kids to experience the rewards of Machu Picchu, Petra, the Great Wall, or the Pyramids without accepting (and living with) some risk. As an adviser, I tell my clients what Mr. Wiles wrote in his column, “Figure out how much volatility you can live with; build a suitable portfolio using low-cost, broadly diversified funds; then find something else to occupy your time.”

I have numerous clients and each of them is on their own journey to places where I have never been. But I do understand the basic principles that every financial traveler needs to know in order to prudently balance risk and reward. However, unlike my kids, I won’t hide the risks from my clients. Even the best travel plans cannot eliminate risks and guarantee success, but they can put the odds in your favor.

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