

Getting Punched in the Mouth

When boxer Mike Tyson was asked by a reporter whether he was worried about an opponent's strategy for an upcoming fight, he answered "Everyone has a plan until they get punched in the mouth". Tyson was not implying that a well-developed plan is worthless; he was rather saying it is easy to affirm you will do something in a hypothetical situation but much harder to act if that situation occurs. A first-rate plan might not even be enough to save you when things spiral completely out of control. Nevertheless a sound plan should not be abandoned readily when adversity strikes and the unpredictable happens.

All investment portfolios need to be diversified, with the mix of holdings reflecting the investor's ability and willingness to tolerate risk. Establishing **target** allocations of what percentage is invested in various asset categories is prudent when trying to achieve optimal gains while limiting risk. A younger investor might have a blend of 80/20% stocks and bonds, for example, while an older investor has a 60/40% split. It is likely that your allocation will from time-to-time drift from its target weightings, especially after a period of volatility. Rebalancing is a technique whereby the investor buys or sells securities to ensure the present combination is in line with his target composite and attitude towards risk. In markets that are wildly unstable, rebalancing can also enhance returns. By strictly adhering to a rebalancing plan, a person forces himself *to buy low and sell high*, the successful investor's mantra.

Now is a great opportunity for investors whose current stock allocation is below its **target** weighting to rebalance from bonds/cash to stocks. There is no need to complete any reallocation all at once. By gradually moving money over time, you spare yourself the anxiety experienced by rebalancing when prices are well above the ultimate bottom, but waiting for that bottom would be folly. If you accept the fact that you do not know what the future holds, this is the best way to proceed.

You may have carried out your rebalancing plan during the "correction" phase, but cast aside the strategy when losses intensified. Perhaps your *punched in the mouth* moment arrived on March 12th, when the Dow Jones Industrial Average dropped 2300 points. Maybe it was March 16th, when it fell 3000 points. Buying stocks as prices are collapsing and pundits are predicting another substantial decline is extremely difficult. But doing so should be your highest aspiration as an investor.

One final recommendation: The unprecedented disruptions caused by COVID-19 underscore the necessity of having a cash reserve of at least 3 months' expenses to help pay bills and provide a cushion during periods of unemployment. Funding a cash reserve fund should come before any decisions on your investment portfolio.

Happy Easter and Joyous Passover!

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