I?m fortunate enough to meet with investors every week with varied levels of accumulated wealth and honored to listen to life stories. I?m consistently curious as what their guts or instincts tell people about their chosen financial partners and the financial industry overall. Thankfully, it is rare to personally hear of financial advisors involved in shady activities. My belief is that most client-facing representatives are honest. Unfortunately, more than I?d like to admit are willfully ignorant or plain lazy. Several common themes emerge which range from where their true loyalties lie (employers), lack of study or reading of material outside what their firm produces, and the worst of it - stale blunt-hammer pleasantries designed to keep clients fully invested in stocks regardless of the macro or market conditions. Here are the 3 lies financial advisors believe. Your wealth can?t afford to feel the same.

Advisors Still Believe Averaging Down Is A Viable Strategy.

The infamous fabrication of averaging down or investing money into losing investments is still alive and thriving. Recently, I met with investors who questioned their financial slide in the stock of General Electric. With unrealized losses of 25-40%, these investors had every right to question why the loss on this investment was permitted to go from minor cut to gaping wound. The only explanation or solution provided was to buy more to lower the overall cost basis. In other words:

> *?If you liked it at 25; you gotta love it at 7!?*

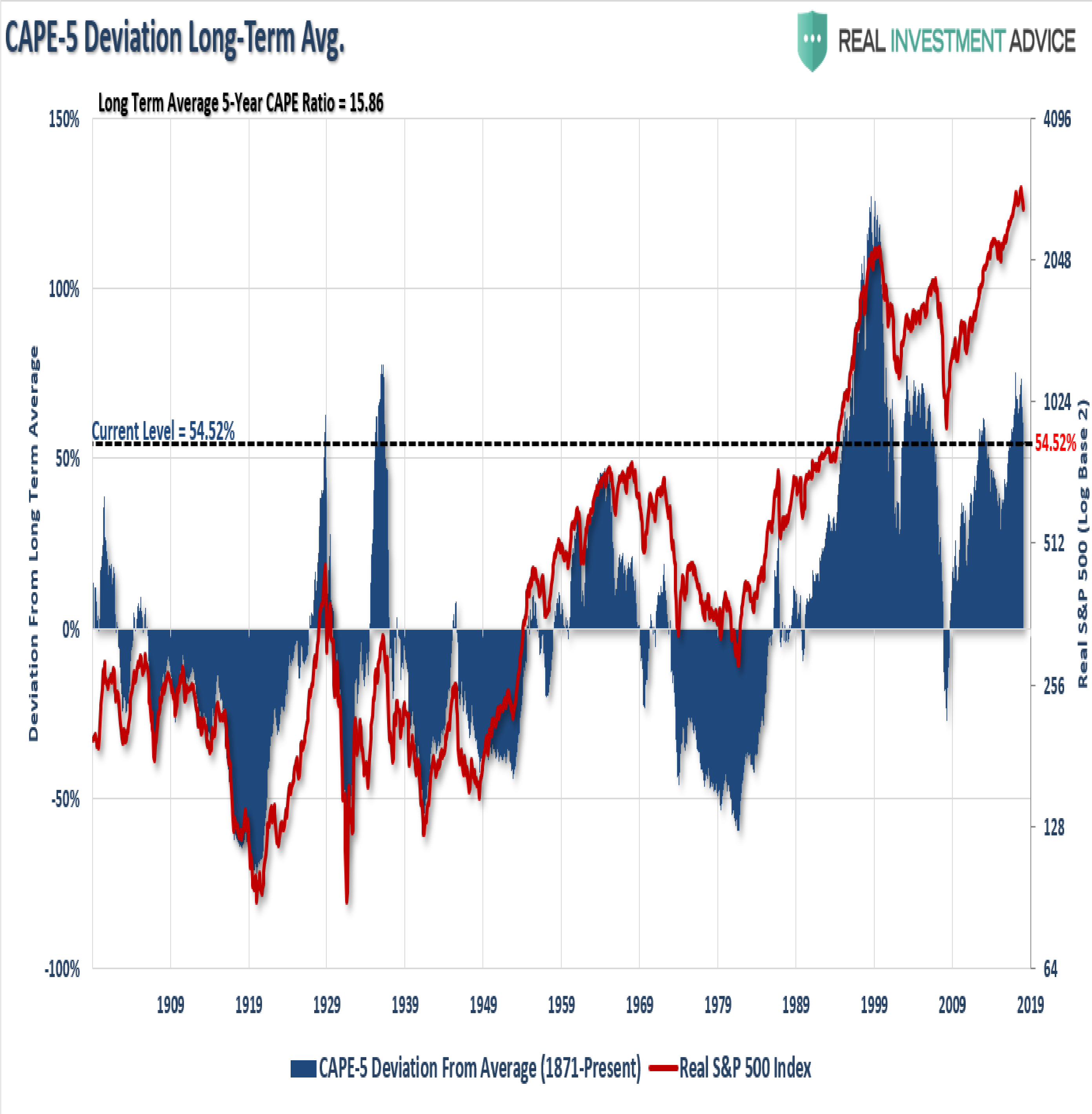
Investors should avoid this ploy to keep money in the market, especially in losing investments; especially at a time when small-cap stocks are in bear market territory and large company stocks as represented by the S&P 500 remain in a downtrend. Irresponsible advice like this usually results in greater losses. One of our rules at Real Investment Advice and our firm is to sell weak players and tighten up stop losses. Averaging down is designed to keep hope alive that a losing investment will eventually morph into a winner. Could it happen? Sure. Although the opportunity cost of tying up money in losers will usually outweigh financial benefits. •A broker conveniently doesn?t need to admit that he wasn?t watching the position and allowed it to hemorrhage if he suggests a purchase of additional shares at a low price, correct? The strategy also appeals to an emotional pitfall called ?*sunk-cost fallacy,?* where investors do anything to avoid losses which ironically is accomplished by throwing more capital into the money pit. After all, if additional money is sunk into a sour investment, one can rationalize that the average price per share is terrific opportunity instead of admitting the cold, hard fact that the investment should be sold, and money deployed elsewhere. Dickson G. Watts was a trader and author in the 1800s. His 44-page book *Speculation as a Fine Art* is a classic. I strongly suggest you purchase a copy. What he wrote about averaging down remains timeless:

> *It is better to ?average up? than to ?average down.? This opinion is contrary to the one commonly held and acted upon; it being the practice to buy, and on a decline to buy*

more. This reduces the average. Probably four times out of five this method will result in striking a reaction in the market that will prevent loss, but the fifth time, meeting with a permanently declining market, the operator loses his head and closes out, making a heavy loss ? a loss so great as to bring complete demoralization, often ruin.

Advisors With A Sell Discipline Are Discounted As Traders.

The word ?sell? remains an anathema. The financial industry?s foundation is based on the siphoning of dollars into investments, mostly stocks. I met with a successful business owner who is ready to retire in 2 years. His portfolio is comprised of 90% in equities thanks to a former financial relationship ? a dangerously aggressive allocation for someone close to retirement and will require distributions to re-create a paycheck. The main point of contention between the client and his former advisor was ignored requests to sell losing investments and allocate the portfolio more conservatively. It wasn?t bad enough that the portfolio held close to 300 stock positions at an annual cost of 1.5%. The portfolio was truly a stock index fund dragged down in performance by onerous expenses. When he came to our firm for a second opinion, I explained how big losses could derail his retirement plan; his former advisor explained that our opinion was well, nonsense ? In other words, minimizing losses and selling was a trading strategy, not a long-term risk management strategy. At our Clarity*Right Lane to Retirement Workshops*, we address financial pitfalls that have potential to veer investors, specifically those 2-5 years from retirement, off course. A common pitfall we observe often is misallocated portfolio allocations. In other words, portfolios that may be designed more for accumulation, not distribution. Consider how rich stock valuations are today as measured by the average of 5 and 10-year inflation-adjusted earnings. With the current Shiller P/E at 29x and other market valuation metrics at stretching points, those who are 5 years or less from retirement should take action today to reduce portfolio risk. Our CAPE-5, a more-sensitive adjunct compared to the Shiller P/E, correlates highly with movements in the S&P 500. There is a positive correlation between the CAPE-5 and the real *(inflation-adjusted)* price of the S&P 500. Before 1950, the CAPE and the index closely tracked each other. Eventually, the CAPE began to lead price. The current deviation of the long-term 5-year CAPE ratio above its long-term mean is currently 54.52% *(which has declined from a peak of over 74%)*•which is still extremely deviated and has occurred only 5-times in the last 118 years.



Unfortunately, valuation metrics such as cyclically-adjusted price earnings ratios are extremely poor at pinpointing turning points in markets. However, they are relevant predictors of the probability of future returns. Hey it?s math. Math eventually wins. Rich valuations are always worked off through reversion to averages. Based on current levels, the most likely outcome is stock returns that average low single figures or negative (yes, negative). Three to five years before retirement as well as through the initial phase of a distribution or retirement income cycle (3-5 years), the primary focus should be on risk reduction and how withdrawals affect portfolio longevity. Unfortunately, where you retire in a market cycle is primarily a spin of the roulette wheel. Basically, luck. If you?re retiring today, welcome to the headwind. Adjust accordingly. However, one truth remains ? when attempting to produce a steady stream of retirement income from variable assets like stocks and to some extent bonds, then distributions must be consistently monitored and possibly adjusted depending on market head or tailwinds. If I had to go out on a limb using current valuations as a guide, I am confident that those close to retirement or just beginning the journey are going to face greater obstacles to future returns. Ignore market experts who appear knowledgeable and push self-serving narratives to validate overinflated stock prices. As we?ve witnessed in the past, faith in financial media darlings doesn?t end well for investors. After all, these pundits are rarely called out. Unfortunately, if you fall for their sound bites, you?re going to pay the price. Your plans will be ruined. Generally, a stock allocation that doesn?t exceed 30% should be considered. If greater, a sell discipline must be employed to minimize losses. There?s nothing wrong with maintaining two to three years of estimated future living expenses (or needs), laddered in short-term bonds or certificates of deposit that are staggered in maturities from six months to three years. I?ve recognized how brokers do a great job at selling product but are overwhelming deficient with helping clients rebalance portfolios. Most likely your allocation to stocks is too aggressive for an investor so close to a retirement date. There should be a sense of urgency to meet with a financial professional, preferably a fiduciary, who can assist with portfolio rebalancing suggestions.

Every Asset Class Is ?Ride Or Die.?

Where does it say in the financial rule book that every asset class must always be owned? For example, at Clarity we exited international and emerging market stocks in January. As of December 12, the iShares MSCI Emerging Markets ETF (EEM), is down 14.02%. The Vanguard FTSE Developed Markets ETF (VEA) is off 8.14% for the same period. There is absolutely no reason to own every asset class ? Large, small, international (you get the picture), regardless of conditions, if they?re busting major technical support. We took similar liquidation action with small-cap stocks months ago. Currently, shares are down 17% from their peak; the Russell 2000 is on the cusp of a bear market. Most advisors seek to blanket every asset class because they were told that?s how it should be done. It?s like an investor placing chips on every number at the roulette table. Candidly, it?s a lazy strategy. It allows brokers to set a portfolio and forget it, so they can move on to the next prospect and meet their employer?s quarterly sales goals. Managing risk in portfolios is too much effort for many in the industry. As an investor, trust your gut when something doesn?t feel right about the investments or portfolio allocation. Speak up. If requests are consistently ignored by your financial partner or you?re respectfully provided universal hack phrases like ?you need stocks for the long term,? when you seek to question losing positions, seek a second opinion. If the second opinion confirms your gut, move on. It?s your money and ultimately your responsibility to act. You can?t afford to be as complacent as your advisor.