> ***?Much of what passes for orthodoxy in economics and finance proves, on closer examination, to be shaky business.?*** *The Misbehavior of Markets ? by Benoit Mandelbrot & Richard L. Hudson.*

If as households we do crumble financially yet another time, will this 'outlier' event finally teach us a valuable lesson? One we'll never forget (again)? I mean, how many Black Swans or events that create wholesale economic and financial devastation must we endure to work diligently, effortlessly, to shore up our family?s finances?

Unfortunately, as humans, we focus on risk and financial stability too late. Always. Too. Late. We are creatures of complacency and mainstream financial advice does nothing but fuel our overconfidence bias. Only when a storm is upon us, wreaking havoc, do we seek to board the windows and secure what's important to us.

We?re cajoled by ?experts? during good times. We?re taught how outlier events occur every 1,000 years. Strange how rare occurrences aren?t so rare. They seem to happen every decade. So, let me ask you ? *How many times do these so-called ?rare? events need to occur before fiscal discipline becomes a priority for all of us?*

Over the last three years, at RIA we have created several financial tenets to guard against financial vulnerability. I don?t mean to preach; I mean to teach.

I hope over the next few years, once this pandemic is past and we rummage through the economic rubble, we?ll take it upon ourselves to remain vigilant through the complacency and take the following rules to heart.

1. A painful reminder about the *?buy and hold?* investment philosophy or whatever horrid expletive you?re probably calling it right now.

Never forget that convincing words, piles of academic studies and mined data from big-box financial retailers in pretty packages make it easy to share convincing stories to push stocks. Hopefully, investors who spent most of their time and money getting back to even remain comforted by the narratives. They?ll now do it again.

I?ll admit - I?m nonplussed by the appeal of buy-and-hold to the purists. I truly envy them.

It seems to be a ?*What Me Worry*?? kind of existence. There seems to be an eerie comfort to throwing money into a black hole of overvalued investments and hoping that it transforms into a white light of wealth 20 years down the road (even if it?s a very dim bulb). I truly wish I could be convinced that a blind buy-and-hold fable is truth.

I so passionately want investors to achieve returns and exceed their financial life benchmarks or goals; it?s good for me too. I also would like to minimize the damage from bears. Is that too much to ask?

At Real Investment Advice we think it?s one of a money manager?s primary responsibilities.

Buy-and-hold at the core wrapped in rules of risk management is a healthy, long-term strategy to build and protect wealth. *That?s what we?re doing at this juncture.*

If you?re completely out of the market for an extended period, I mean zilch, zero, then stock investing may not be appropriate for you. Hey, it isn?t for everyone, especially today when the flood of central bank liquidity (I?ve never witnessed anything like it), algos (the robots), probably $4 trillion in fiscal stimulus coming, tries to stem the devastation. The bull market is dead, a bear is tricky to navigate. I am grateful to be a partner at a firm where all members understand the devastation of bear markets and are not ?deer in headlights? as this crisis is upon us. Take heart ? the bear will die; the bull will run again. As investors we will bleed. The key is not to hemorrhage. There is a difference.

It?s not too late to undertake a quick gut check ? Realize that an allocation of 10-20% to domestic and international stocks can drop 40% on ***average*** in bear markets. Investors fail to realize that diversifying between foreign and U.S. stocks doesn?t manage the risk they care about most ? risk of principal loss. We are witnessing this now - one more time on the disaster hit parade. The world has become increasingly an Irwin Allen (*The Poseidon Adventure; The Towering Inferno*), film and we are the actors.

Let?s say your retirement plan balance is $90,000. In a conservative allocation, $18,000 (20%), may be allocated to stocks. If a bear cycle takes the stock balance down to $10,800 and makes you a bit queasy, then certainly the market doesn?t fit into your overall investment philosophy.

If you do have the intestinal fortitude to maintain an allocation to stocks, your financial partner is a buy-and-hold zealot (highly likely), and you haven?t taken profits (a tenet of risk management) or rebalanced this year, then there?s still an opportunity to do so on rallies. It?s acceptable to maintain additional cash as much as buy-and-hold purists abhor cash.

You?re not the *?idiot?* who sells at the bottom just because you adhere to rules of risk management.

Granted, investors can be their worst emotional enemies. If risk management rules are employed as an integration to an overall investment process, then selling at the very bottom may be avoided. From my experience, the dumbest actions of those who did sell at the bottom in March 2009, rest almost solely on their brokers.

You see, if financial professionals would have empathized with their clients and took enough (any) action to preserve capital as clients were calling with concern in late 2007, maybe, just maybe, those distressed investors wouldn?t have sold out of everything pretty much at the bottom.

The advice *?not to worry, markets always come back,?* regurgitated repeatedly did nothing to allay concerns; frankly hollow words made brokers appear as if they employed market blinders or were in a state of denial. They appeared ignorant, not aware of the severity of the crisis.

I listened enough to begin surgically trimming positions (I explained to clients we sought to take a scalpel, not a machete to reducing stock exposure in portfolios), and was proactive to sell clients out of a Charles Schwab bond fund described as ?stable in price,? an ?alternative to cash,? in November 2007 when the mutual fund share price was doing nothing but faltering.

Although Schwab portfolio management assured us in the field repeatedly that there was *?nothing wrong with the fund,?* and it wasn?t suffering mass redemptions, it did eventually go bust and Schwab was held accountable for lack of oversight.

Unfortunately, the company got off easy as the settlement with the SEC was nothing but a financial slap on the wrist when the fund held $13.5 billion at its peak.

You tell me this stuff isn?t rigged against retail investors? I believe differently. I always will.

Proactive behavior allowed me to maintain a semblance of stock ownership and then begin to increase exposure through the summer of 2009. I deemed it buy-and-hold with a ?protective twist.?

If your broker isn?t actively listening and is discounting concerns, it?s time to replace him or her. Answers received should be thorough and backed by analysis.

If you must invest today, consider dollar-cost averaging.

Usually, dollar-cost averaging where you add a fixed dollar amount to variable investments on a regular schedule, underperforms value or lump-sum investing. Unless the cyclically adjusted price-to-earnings ratio or CAPE exceeds 18.6 (today, it exceeds 25).

An impressive analysis and paper by Jon M. Luskin, CFP• for the*Journal of Financial Planning* titled ?Dollar-Cost Averaging Using the CAPE Ratio: An Identifiable Trend Influencing Outperformance,? outlines how investment periods with a CAPE greater than 18.6 is beneficial to dollar-cost averaging with investment returns .45% greater than lump-sum investing.

The other side of the coin of buy-and-hold isn?t active trading.

Cop out. Lame excuse. I can?t be clearer. Not only are you branded a ?bear? if you employ a sell discipline, it appears that the buy-and-hold purists can?t think outside of extremes. They tend to associate selling with active trading. It?s a clever ploy designed to avoid the conversation or even the thought of a sell process. It?s just impossible.

Not it isn?t. And it isn?t active trading either. Active trading isn?t going to generate returns, just activity. Plus, if you consider that trades cost ZERO at most big-box financial retailers, transaction costs aren?t a concern anymore.

For years, the investment industry has tried to scare clients into staying fully invested in the stock market, no matter how high stocks go or what?s going on in the economy. Investors are repeatedly warned that doing anything otherwise is simply foolish because *?you can?t time the market.?*

Here?s why per Lance Roberts:

?Wall Street firms, despite what the media advertising tells you, are businesses. ***As a business, their job is to develop and deliver products to investors in whatever form investor appetites***

demand?*Wall Street is always happy to provide ?products? to the consumers they serve.*

As Wall Street quickly figured out that it was far more lucrative to collect ongoing fees rather than a one-time trading commission?*The mutual fund business was booming, and business was ?brisk? on Wall Street as profits surged.?*

I?ll add:

Frankly, it?s too much work. Financial experts are primarily peddlers of managed products. They?re hired to regurgitate sell-side biased data mined from their employer?s research department. What they?re implying is they?re too busy meeting sales goals to consider risk management *(the way you define it as an investor)*, important.

With that being said, consider other rules to protect your household for when the next 'outlier' event occurs (I mean, after this one).

2. The FVC ? The Financial Vulnerability Cushion.

The main purpose of the **Financial Vulnerability Cushion** is to fortify the foundation of a financial house. You?ve heard about maintaining three to six months of living expenses in cash for emergencies. Well, define an emergency. The car breaks down, sure. The A/C goes out? Right. Expenses such as these fit well into a three to six-month cash cushion. However, Black Swan events remind us this cushion isn?t enough. We must finally learn to separate emergency from crisis.

Over the last six months we?ve been discussing on the radio how important it is to build a cash war chest of one to two years? worth of living expenses and maintain it above everything else. These reserves are for crisis. A sudden job loss; major illness. Unfortunately, millions will be out of work here. Some, long term. I?m increasingly concerned about those who work in the energy sector. Never forget. Don?t listen to mainstream financial media again. Remember this time and work diligently to build a FVC.

3. Create financial rules around debt control and savings. Then stick to them. No matter what. Good times or bad.

Consider strict debt management and savings habits as the blend of robust soil which allows opportunities to be realized. Excessive debt and limited ability to buffer against financial emergencies and crisis can limit a person?s ability to take on riskier but rewarding ventures like career change, entrepreneurial endeavors and risks that may lead to significant, long-term wealth.

Mortgage debt:?Primary residence mortgage = 2X gross salary.

Student loan debt: ?Limited to one year?s worth of total expense, tuition, room & board, expenses.

Personal, unsecured debt (credit card, auto): No more than 25% of gross monthly household income.

4. Be smarter with credit.

Today, credit cards are used for various reasons ? convenience, cash back, travel reward points and the most unfortunate, to meet ongoing living expenses in the face of structural wage stagnation. So, consider the following.

Credit Card Debt = No greater than 4% of monthly gross income.

If your household gross income is $50,000 then credit card debt shouldn?t exceed $2,000. Per WalletHub, Texas ranks 46 with $2,848 in average credit card debt.

Survival tip: Take control of your money. Contact your credit card provider today and request a lower interest rate, perhaps the favorable balance transfer rate along with delayed payments. We are in this catastrophe together and it?s the least they can do for at least the rest of the year.

Car Loan Debt-to-Income Ratio:

Cars are required like breathing here in Houston and Texas, overall. However, *they are not investments.* Their values do not appreciate. If anything, auto values decrease as soon as you drive away from the dealership.

Car Loan Obligation = No greater than 25% of monthly gross income.

For example, a household bringing in $60,000 a year shouldn?t have more than $15,000 in outstanding auto loan debt. In my household, the ratio is less than 10%. I drive a Toyota RAV4. Put your ego aside; consider reliability first.

As I complete interviews with media and news outlets in Houston and across the country, my heart is overwhelmed with sorrow for those who are suffering through this, yet another ?rare? historical episode.

Please reach out to our team with questions and for guidance.

Every question is a good question.

Never be afraid to ask.