BY ABBABELLE PRESTON

FIVE YEARS LATER: LESSONS LEARNED

With March marking the five-year anniversary of the stock market hitting bottom in 2009, many financial advisors are continuing to integrate the lessons learned – albeit painfully – from that experience.

Paul Gydosh, Jr., managing director of Kensington Wealth Partners, Ltd, based in Columbus, Ohio, remarked that the time period still leaves a fresh imprint on his mind and on the investment actions he makes on behalf of his clients.

"It served as a salient illustration of the risk associated with investing our money in the equities market," Gydosh explains. "We talk about that risk all the time – for all of the 26 years that I have been in this business. But for many people, it became an academic discussion because, after two or three wonderful years in the stock market, people in general can easily forget that you can have ugly years as well."

Continuing to use that market plunge as a teaching tool for use with his clients, Gydosh describes the Great Recession as a stress test for the effectiveness of a retirement plan – for the ability of a portfolio's structure to withstand the downside. "Financial planners learned new techniques for managing risk and new financial management terminology was created," he said.

"What emerged are new metrics. One of these is a term called 'downside capture' in which we focus on alternative strategies to dampen the downward movement in the market without giving up much on the upside," Gydosh explained.

He said, "Achieving this kind of risk mitigation while still seeking returns able to build sufficient asset and income for investors requires a partnership and new techniques as well as increased communication between planner and client."

The alpha approach – that constant drive to beat the market – isn't the focus at Kensington. Instead, they concentrate on a customized approach aimed at helping meet long-term goals that clients have set for their retirement years.

"Our metric – and our client's metric – is not the S&P 500. It's a number that we have calculated and derived through our analytics, which uses the client's unique assets, their needs and their goals to determine their own metric is," Gydosh said. "This is our barometer: How did we do against what we needed to earn to get our client where they want to go."

He admits that, if alpha occurs during that process, then even better. Certainly he does look at how the S&P and other indexes performed. It's a concession related to the fact that he's human too – and curious to check how his advice stacks up against the rest of the financial world. But, he said that this is not the final measure of his success as an advisor – nor is it the final measure of success for his clients.

The key to achieving their success, in Gydosh's mind, is knowing what they need. "What good is alpha if you don't know what you need to earn. Chasing after alpha is going to lead to disappointment, to an abandonment of the plan, and more risk than is necessary."

Currently, Gydosh is using a life expectancy range of 95 to 100 years of age to determine a client's financial needs during retirement, unless family history is decidedly less.

"We use very conservative assumptions and sound mathematics in the analysis, then review the changes that life brings and adjust plans as we need to," Gydosh said. "Having said that, we are cheerleaders for today also. People have to live life fully for today as well. Once we calculate what we need to do and have gotten on that path, let's enjoy life along the way!" ■

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