Plan Your Finances as You Would Your Exercise

You exercise to benefit from your sweat equity in the future, right?

Waking up early in the dark mornings of winter to exercise comes hard. Once your workout ends, though, you often begin the day with the payoff of a tremendous energy boost. Can the same process apply to your finances?

If you're like most people, you exercise for many reasons but expect to benefit from your sweat equity in the future, not just in the current moment. We will all encounter health issues at some time and the medical world assures us that we'll deal better with problems if we get – and stay – physically fit. Preparation matters.

So, what does exercise have in common with financial planning and investing? The answer: Very few individuals prepare to invest, except maybe when selecting from choices in a retirement plan.

Or not: One study shows that in 2020 – in the teeth of the COVID-pandemic and perhaps the most volatile market year since maybe 2008 – most 401(k) retirement plan participants made no changes to their contributions.

Exercise Helps Limit Our Injuries

Getting back to the fitness analogy, exercise's greatest benefits come from the stress we intentionally place on our muscles so that when a health problem arises, our bodies are in better condition to deal with the situation. Regarding investments, if you choose to go it alone, you need a methodical (and regularly visited) regimen for taking in and processing market data. You also need a strategy to accommodate unforeseen yet inevitable future events, such as market downturns.

Don't let random financial news clips guide your decisions when determining how to act. For the record, you need not re-allocate asset classes or otherwise change your portfolio just because something in the market changed.

You do need to be prepared to consider adjustments when the information dictates that conditions shifted, such as stocks increasing to a higher portion of your portfolio than you want.

Your Planning Routine

We call this an investment policy statement or some prefer the term "investment playbook." The playbook outlines your holdings and specifies how you intend to respond to change with a disciplined approach aimed at particular objectives – as opposed to the usually heated emotions most of us feel in a suddenly rough market.

How are your holdings doing against benchmarks such as the S&P 500 Index? At specifically what point will market shifts make you re-allocate percentages of stocks and bonds in your portfolio?

Your playbook also describes what you're trying to achieve as an investor – pay for retirement or for college tuition, for example – and how you'll react to market changes. You might plan to sell or buy only if the S&P 500 hits a certain number or invest in oil if the cost per barrel drops to a pre-set price. A well-designed playbook keeps you from panicky decisions or from freezing up during Wall Street roller coasters.

Your playbook needs to clearly document your investment information sources, the technology involved in your investing and why you bought a particular investment. Remember: Great stock or mutual fund opportunities may arise and shimmer, but if they don't match your playbook, you pass.

At the gym, you can wander among the clanking weights or plan exactly how to invest your energy. You know which method works better.

Investing is no different.

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