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The market doesn't care about you

Those are harsh words, but after the past week of stock market volatility a lot of investors already have hurt portfolios and hurt feelings!

I met with Ashvin Chhabra, author of recently-published book *The Aspirational Investor*, PhD in Applied Physics, and former Chief Investment Officer of Merrill Lynch, Bank of America in Manhattan last week. I was inspired to talk to him, at least in part, by this paragraph from his book: "A well-diversified portfolio will deliver market return with market risk, yet it does so on its own terms, unaware and uncaring of your needs and aspirations.

If markets do not care

about you, as they surely do not, why should the success of your life's goals depend on their whims?"

Ashvin believes that investors should align their portfolios with their life goals. To do that, they need to combine three objectives that sometimes conflict into a single, unified strategy: the need for financial security in the face of multiple risks, the desire to maintain current living standards despite inflation, and the opportunity for life-changing wealth creation.

My interview with Dr. Chhabra was perfectly timed, since we had coffee just as global markets were beginning their severe bout of upset. Who better to talk to than an expert in finance AND Chaos Theory?

In an email following our meeting, he said "You can't control market fluctuations, you can control how

you prioritize goals."

His sensible, holistic perspective has been helping me talk to my clients and I'm happy to share some of his wisdom. All jokes aside, Ashvin said that his background as a physicist studying Chaos Theory helped him better understand instability and develop his Wealth Allocation Framework...after all, markets are anchored in disagreement. The trick, he said, is to make sure your investment strategy is based on what you can control. He added that the future is uncertain so investors need a pragmatic way of dealing with it.

His book points out that focusing exclusively on market returns is not in and of itself a path to a successful investing outcome. Recent market activity shows that diversification does not protect against unpredictable and extreme

volatility.

Dr. Chhabra's framework proposes that investors ask themselves the question: "What do I want my wealth to do for me?" From there, match objectives with the appropriate resources and level of risk. Ashvin says that by organizing your financial life around what you hope to achieve for yourself and your family, you will be better positioned to achieve your objectives.

So rather than taking a market-centric approach to investing, he proposes that we move to an investor-centric philosophy: organizing our wealth by intended purpose and shared risk-return characteristics. He does this by identifying three buckets that allow you to achieve the three goals of preserving your lifestyle, maintaining your lifestyle, and then enhancing your lifestyle:

1) Personal Assets: cash (for emergencies), home, annuities or insurance. The risk/return profiles are low because personal assets are expected to provide safety.

2) Market Assets: stocks (broadly diversified), bonds, and alternative investments. The risk/return profile will be in line with market performance.

3) Aspirational Assets: the family business, investment real estate, and stock options. The risk/return profile is high. These assets are intended to significantly outperform the market if and when they succeed.

It is important to measure the performance of each bucket according to how you are progressing towards each of the three goals over time. This is much broader than just looking at performance against investment

benchmarks.

As Dr. Chhabra suggests, your investment strategy must be designed to help you progress toward the things that matter most. Ideally you will fulfill your need for safety and also have the potential to achieve your dreams and aspirations. That message is so similar to how I already manage money for my clients that I have bought a number of them copies of *The Aspirational Investor*. I can't afford to buy one for all of my 24 hrs readers, so please check it out for yourself!

His closing words to me were: "Investor — know thyself. Investing is not about the markets, investing is about you." That fits with what I have been telling my clients these days... know your aspirations and be clear as to the role the market plays in your personal investment strategy.