Bankable advice: 6 timeless money tips for volatile times like now

What to do with your savings, especially in a market marked by pandemic volatility? IESE's Javier Estrada goes back to the basics of sound financial planning, along with a few books and other resources that may help.

December 14, 2020

There's no clear outlook regarding the next six months, let alone however many years are left until you retire. So, what to do with your money in the meantime?

The common wisdom is to diversify, have clear goals, don't try to second-guess the markets and don't overreach. In the words of Mr. Wilkins Micawber from the Charles Dickens classic, *David Copperfield*: "Annual income twenty pounds, annual expenditure nineteen ninety and six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds nought and six, result misery." In other words, stay within your means.

Here are some picks from Javier Estrada and other IESE professors that may also help.

The Little Book of Common Sense Investing

This influential investment guide by the late John C. Bogle, founder of the Vanguard Group, recommends buying and holding, at very low cost, mutual funds that track a broad stock market index, such as the S&P 500, for building wealth over the long term. As Estrada likes to paraphrase the author as saying, this may not be the best strategy to manage your savings but the number of worse strategies is infinite.

Thinking, Fast and Slow

Some of Daniel Kahneman's takeaways for financial decision-making: Don't let optimism get in the way of a sound decision, stick to formulas, and don't watch short-term market moves too closely. To that latter point, Estrada recommends deleting any trading apps from phones. Trade too much and you're more likely to be fearful when everyone is fearful, and greedy when everyone is greedy, which is a way to lose money fast. Even amid extreme volatility, if your own fundamental reasons for investing remain the same, hold on for the ride.

The Wisdom of Finance

"Ideally, the reader is unconsciously taking a course in finance and emerging with the intuitions of finance, but only by enjoying stories," explains Harvard Business School's Mihir Desai in the intro to his 2017 book. The humanistic tales come from classics in literature, philosophy and history, as well as pop culture, to illuminate, for example, the "power and perils of leverage" along with other fundamentals of finance.

Morningstar.com

One of the biggest names in financial services is a fine place for value-minded investors to explore thousands of mutual funds of all shapes and sizes. Free and premium offerings help evaluate key aspects, such as ESG ratings — for Environmental, Social and Governance factors in measuring investments. In fact, in 2020, Morningstar acquired the ESG research-and-ratings pioneer, Sustainalytics, to further help investors who want to put their money where their values are.

The Not So Big House

With mortgage rates at record lows and home confinement a too-recent memory, many are stretching to secure large loans to upgrade their housing. But larger homes are harder on the environment, more expensive to maintain and tie up money that could be used elsewhere. Instead of bigger, consider more flexible, with spaces that accommodate work and play. This title, first published in 1998, and its many spinoffs stress quality — building better — over quantity — building bigger.

Investing in a Very Volatile Environment: COVID-19 and the Markets

During this 50-minute talk moderated by Mike Rosenberg, Estrada discusses the impact of the coronavirus on the financial markets, compares it to other bear markets and draws some lessons to help investors navigate the storm.

This is one of dozens of live sessions and open-access resources available at ***iese.edu/open*** to inspire the business community to proactively overcome the crisis.

Investing during the pandemic

Six tips from Javier Estrada, professional financial adviser and author of *The FT Guide to Understanding Finance*, among other books.

Bonds with negative yields. No interest-rate hikes on the horizon. Given this context, it is natural to worry about what to do with your savings. Here are six timeless recommendations:

1. Forget about forecasts

There is massive evidence against anyone's ability to predict financial and economic variables consistently over time, particularly for the short term.

2. Define your portfolio goal

Why are you investing? For how long? Investors who don't have a goal or holding period are simply shooting in the dark. Begin with the goal and work backward: I call this "investing from Z to A."

3. Focus

Build your portfolio on the basis of the variables you control, like the cost of your portfolio, and don't worry about those you don't, like interest rate moves.

4. Watch fees

You won't hear this often — and certainly not from those who want to sell you expensive funds — but the evidence is unequivocal: The more you pay for a fund, the lower the return in your pocket.

5. Keep it simple

You can have a portfolio that is perfectly appropriate for your goals with only two or three funds, as long as they are broadly diversified and have low fees. Don't believe it? Warren Buffett said his own wife's inheritance should be in just two assets: 90% in a low-fee index tracker fund and 10% in government bonds.

6. Rebalance your portfolio twice a year

If any asset class has a much higher or lower weight in the portfolio than what you have determined as appropriate for you, simply revert to the target proportions.

This advice, which I've been offering for years, is especially valuable today as the coronavirus crisis throws even our basic ideas into question — though it really shouldn't.

A version of this article is published in IESE Business School Insight 157.

www.iese.edu/insight