

**Stress Test Your Portfolio**  
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As this article is being written the federal government has been shut down for weeks and is setting records every day for the longest shutdown in history. This a big deal since most American families (78%) live paycheck to paycheck and are unable to meet their financial obligations since their monthly income is predominantly devoted to meeting expenses.

Stress testing of family finances broadly falls into into two categories:

1. Cash flow adequacy during extended periods of income disruption, or
2. Loss of an income stream when a family member dies and their government and/or private annuity income stream stops.

Both situations require preplanning, including stress testing the assumptions being made. But this article is about **portfolio stress testing**.

For the (too small) portion of American households that do have an investment program in place there is a third category of stress testing that needs to be conducted -- that's stress testing your investment portfolio. Coincidentally, here too are two categories of stressors:

1. A cash flow disruption that forces an unplanned redemption from long term investments to meet short term living expenses, or
2. Manic market "adjustments" that trigger either an unwise stop loss sell off of holdings at a realized loss or forces an emotional decision to stop the hemorrhaging and "get out of the market" while you still have some money left.

Stress testing the first situation is your normal portfolio asset allocation assessment. That assessment requires you to set aside a portion of your investment money in secure, liquid, but very low growth accounts. This is money that you'll tap for living expenses in emergencies. It's not going to grow much, if at all, after inflation. But setting that money aside protects the rest of the money you've earmarked for your future use. With that cash account you won't be forced to make an unwise redemption, particularly from a tax deferred retirement account, to meet your current needs.

The best stress test for the second situation is having high confidence in the quality of your portfolio holdings. Having current, complete, and well researched stock studies (your SSGs) for each company in your portfolio builds the confidence you need to not just stay the course when the market drops but to buy more shares of your companies while they're on sale.

Stress testing your portfolio requires dispassionate quarterly PERT reviews to spot the early warning signs of troubling months ahead. Slowing sales and declining profit margins often presage earnings drops that, once noted, result in alarming price drops. Armed with current

SSGs for companies that are not showing these early warning flags gives you the confidence to do what most investors won't do -- buy low while the companies are on sale.

If you would like to know more about how to do a stress test for your own personal or club portfolio just send an email to [BISCC.BOD@gmail.com](mailto:BISCC.BOD@gmail.com), put in the subject line "Stress Test" and we will get right back to you and set up a training opportunity to help you out.



