

Make Sure Your Investment Decision-Making is Inside-Out

By Austin Pryor, Sound Mind Investing

One of the propositions we regularly put forth in these pages is the idea that one's investing decisions usually can be made with little regard for what's going on in the investment markets. This seems counterintuitive. Let us once again make our case, then we'll apply it to the question of deciding whether now is a "good" time to sell some of your stock holdings.

Where do investment decisions originate for many investors? The starting point is found in the impersonal "outside" world of current events, magazine articles, and brokers' recommendations. Their *decisions are guided primarily by outside considerations*. As they respond to the data thrown at them—sometimes buying, sometimes selling—their personal "inside" financial worlds take shape. Their thinking is "outside-in." They need a continual stream of outside information to stimulate their thinking and provoke them to action. Decision-making would be impossible without it.

For other investors, the starting point of decision-making is "inside" information. The focus is on their own financial needs and a personalized long-term strategy designed to meet those needs. Their buy/sell decisions are made based on what's required to make sure their financial holdings are in accord with the game plan. The "outside" world of investment professionals comes into the picture only because assistance is needed in executing decisions already made. This is "inside-out" thinking, where *decisions are primarily shaped by inside considerations*. Thus, current market fads, trends and so-called expert opinions are largely irrelevant to inside-out investors. As you have probably guessed by now, we're encouraging you to be an inside-out thinker.

In other words, make your investing decisions as you would other consumer purchasing decisions. For example, if your family has grown to the point you need a minivan to haul everyone around, you wouldn't buy a sporty new VW Beetle instead because a magazine article said they're "hot" at the moment. Or, if you need a medicine that lowers your blood pressure, you wouldn't let a glowing recommendation from your druggist convince you to bring home the leading antihistamine for allergies instead. It would be foolish to let irrelevant external influences (outside-in thinking) steer you into making such

inappropriate purchases. Instead, you make your decisions based on your needs at the time, irrespective of what the marketplace would like to sell you.

This is obvious, you say. Yet, many people have a difficult time applying this consumer mindset to their investing decisions. One of the most frequently-asked questions in recent months has been a variant of "Stocks have rallied 25% since October, but many experts still think we're in a long-term bear market. Should I sell my funds now?" These folks may decide whether to reduce their stock holdings depending on how volatile the market has been, what the business magazines say, what action the Federal Reserve may take, or—heaven help them—what *our* best guess might be. Outside-in thinking will never tell you whether it's a "good" time to sell stocks because no one knows what the market will do in coming months (as evidenced by the continual reporting of conflicting opinions from Wall Street's bulls and bears).

Here's a checklist an inside-out investor might run through in deciding the "Is it a good time to sell?" question.

- Is my financial foundation rock solid? That is, am I debt-free (Level 1) and is my emergency fund (Level 2) sufficient? If not, I should sell enough stock (or stop contributing to my 401(k) plan long enough) to repair the cracks in my foundation.
- Are my earlier assumptions about my lifetime earnings, retirement and lifestyle goals, health needs, life expectancy and emotional tolerance of risk still acceptable? If in doubt, I should once again run the numbers in the retirement planning worksheets ([Retirement Countdown bonus report](#), or the *SMI Handbook*, chapter 21). The results might dictate a change in my portfolio mix between stocks and bonds (see the *Handbook*, page 139 or [SMI's New Reader Guide](#)).
- Are my protective boundaries still in place ([Biblical Blueprint bonus report](#))? If not, what adjustments should I make at this time? For example, I lose needed diversification if more than 15% of my total investments is in the stock of my employer. In that case, even if I think my company's stock will do well in the future, it's probably wise to sell the excess and reinvest the proceeds in other assets.
- Am I meeting my giving goals? If not, perhaps I should make lifestyle adjustments or sell some of my stock holdings in order

to fund my giving and/or launch my "God Pocket" giving (see [this month's cover article](#)).

Notice that the focus is on the personal needs and circumstances of the individual, not on the headlines of the day which almost never tell you anything that will enhance the quality of your decision-making. While current events may provoke you to run through your personal list of review questions, they should not dictate the answers.

(Making inside-out decisions doesn't mean you never make adjustments to your plan. As *[On Bear Markets and Boundaries](#)* indicates, sometimes small changes may be an appropriate response to external events. However, while you may tweak the details now and then, your plan's core strategy shouldn't change much over time.)