

Getting Back on Track: How to Refocus After a Financial Setback

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Life occasionally throws you curveballs. These can include personal setbacks – such as an extended illness, loss of your job, or a divorce – or financial problems, such as a downturn in the stock market that affects your retirement plan account, or an unwise investment. Whatever its origin or nature, a setback can cause a loss of both your self-confidence and momentum in your personal planning.

But don't despair. Setbacks are often an unavoidable fact of life. And, as difficult as it may be, it can be a good time to seek financial guidance. Doing so can help you develop new strategies – and help you regain a positive attitude toward money. A qualified financial professional can help you review your situation, regain your confidence, and get back on track.

Avoid the Extremes

It's easy to become emotional about money, even in the best of times. But during a setback, you can experience deep doubts about your future, and panic can set in. Often, when people are gripped by strong emotions, they pursue one of two extreme courses of action:

- They do nothing. Like a deer in the headlights, they freeze.
- They try to do too much, and can abandon good planning habits and ideas that were working well before the setback.

Since both extremes are counter-productive, a little perspective can add great value. After all, you worked many years to build your assets. Yet a setback can hit you suddenly, or in a very short period of time. It can take a toll on your budget, your net worth, and your psyche. But acting rashly in response may only make matters worse – and making *no* adjustments can be just as bad. Instead, take time to assess the situation. Then act calmly, prudently and decisively.

Take a Step Back

It's important to “take a deep breath” after a setback and look at your situation objectively. Here are some approaches to consider:

- **Assess both the long- and short-term impacts.** Instead of abandoning your long-term plan, adjust it as necessary and recommit to it. For example, suppose that you had planned to retire at age 60. After a setback, you may have to retire at age 65 instead. Don't brood over it. Accept the adjustment, commit to reaching your new goal, and take the steps you need to move on.
- **Re-examine your attitude towards risk.** How has your tolerance for risk been affected by the setback? If you've lost money in the stock market, perhaps you have a greater appreciation for its inherent risk and want to reduce your exposure. On the other hand, if you've lost your job temporarily and need to make up lost ground in your retirement plan, you may need to take a bit *more* risk. Everyone's situation is different.
- **Make small adjustments that are meaningful.** Both you and your money need to work hard to recover. For example, you may need to curb your spending for a while, so this could be a good time to develop a detailed household budget.

- **Learn from your mistakes.** If your actions contributed to your setback, try not to repeat your mistakes. For example, if you lost money investing in risky stocks, commit to an asset allocation program that provides an automatic diversification discipline. This will help you avoid losing your discipline and chasing a few “hot stocks” in the future.

After you've experienced a setback, take the time to regain your perspective and confidence. A qualified financial professional can help to guide you back to good habits – and help you to ensure that bad ones aren't repeated.

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