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Would your investments keep you afloat in the time of a job loss, or drag you down?
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Why your job and your portfolio should never be best friends

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Back in the days when Nortel Networks Corp. of Toronto was a red-hot stock rather than a cautionary tale, Judith Cane found herself doing a lot of pre-emptive damage control for her clients. Big salaries, company stock options and even more high-tech investing – to say some of her new customers' investment portfolios were unbalanced was an understatement.

"It was crazy here. It was like being in Vegas," says Ms. Cane, who sold her Ottawa investment and insurance advising firm as few years ago to become a fee-only money coach with Money Coaches Canada.

“Nortel employees not only had their pension with Nortel, but options with Nortel – which they were cashing in and buying more stock in Nortel. We were begging them to balance their portfolio, but honestly, it was really difficult. They were so caught up in it,” she says.

The unfunny punch line is that the tech behemoth performed a spectacular belly flop when the tech bubble burst in 2000 and thousands lost their jobs. What’s more, employees who didn’t listen to more cautious financial planners, experienced the double whammy of losing jobs and holding decimated investment portfolios.

Although Nortel represents an extreme example of what can go wrong when an investor-employee double-dips, today’s Canadians would be wise to take a look at their own portfolios to see whether they would pass the unemployment stress test.

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In love with the company

Jamie List, a certified financial planner with Bearing Capital Partners in Mississauga, says too many employees get into trouble because they’re so busy drinking the company water they don’t come up for air long enough to realize it could drown them.

“What’s that expression when you fall in love with your kidnapper? Stockholm syndrome. I think there’s a bit of that in employees who own their company’s stock. They buy into the idea that if they do a good job, the stock performance will be there,” he says.

The reality, he maintains, is that stock performance is largely based on market performance. So even if employers offer company shares as part of an incentive plan, employees might be wise to cash them in sooner than later and use the funds to diversify their portfolios instead.

“It’s difficult. From a corporate governance point of view, having that large holding is supposed to incent the employee, but from a financial planning and portfolio point of view, it’s trouble,” Mr. List says.

Professors gone wild

When planning a portfolio, it’s also a good idea to determine just how solid your job is right now and for the long haul. For instance, a tenured professor or government employee with a great pension potentially has a guaranteed income stream for life. There will always be money flowing in, so what’s a little investment risk? Their portfolios can afford to be less conservative than someone’s who works in a more volatile industry.

So salespeople, listen up. Your rollicking personality is good for business, but could cause trouble when investing your commission.

“Counterintuitively, people who work in sales are often much more risk tolerant, therefore they’re generally predisposed to making investment decisions that lead them into tricky situations,” Mr. List explains.

Those who should be most risk averse when it comes to their portfolio? Entrepreneurs, says Peter Andreana, a certified financial planner with Continuum II Inc., in Burlington, Ont. Often, business owners have the majority of their wealth tied up in their own businesses and have the most to lose if the company fails.

"It's the age-old, 'Don't put all your eggs in one basket.' You really need to diversify," Mr. Andreana says. "If your business starts having challenges, that's 80 per cent of your wealth and 100 per cent of your income on the line. If the business is going down and that's an asset you were planning on selling, you're in even bigger trouble."

Rainy day money

Losing a job is emotionally stressful, even if your portfolio is doing well. It's not always easy or advisable, for instance, to take money out of a registered plan or less liquid account.

For peace of mind no matter what your job situation is, it's important to build up an emergency fund now that's easily accessible. Mr. Andreana suggests putting money into a tax-free savings account (TFSA) since there are no tax implications when taking it out. In other words, if you made $50,000 in the first half of the year, lost your job, then took $5,000 out of your TFSA, you would only be taxed on the $50,000. Just remember though, if you land a new job quickly, you'll have to wait for the next year to load that money back into the TSFA. You can't do it right away, Mr. Andreana says.

Dipping into a registered retirement savings account (RRSP) should be a last resort, as you lose out on long-term growth and there can be penalties. Even so, if there's ever a time to pull out money early from an RRSP, it's now. If you're out of work, you're probably in the lowest tax bracket anyway, so the tax implications are fewer. Just talk to an adviser first before going that route.

Ultimately, no matter how a portfolio is invested, a job loss – or even the threat of one – should be enough to make you revisit it and see what needs to change. Yet it's amazing, Ms. Cane says, how many people forget to rebalance what they've got and determine whether some of the funds should be moved into safer vehicles until they find employment again.

"When you lose your job, your situation has changed significantly. You absolutely should go back and look at your portfolio," she says. "You can't afford to take as much risk."

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