

HOW TO

Manage Through **Volatile** Markets



Introduction

Market volatility has increased and is unlikely to subside anytime soon. How do you keep your financial plan on track to achieve your goals?

There are three essential areas to focus on:

01 Get your finances and your portfolio in the best possible shape



02 Take advantage of lower asset values

03 It's not just about financial wellness



01

Make Solid Financial Moves

FINANCES



Budgets/Spending



Emergency Funds



Decrease Debt

PORTFOLIO



Rebalance Risk



Defensive Positioning



Interest Rate Sensitivity

Review Your Finances

Budgets and Spending

Lifestyle creep is real, and it can be insidious. Make sure you have a handle on your budget. You want to ensure that you are realistic about your spending, and that you can continue to live the life you want. But money you save here can be put to work for other goals to keep you on track. Think of it in two dimensions: short-term and long-term.



SHORT-TERM BUDGETS

This is the day-to-day. Start from scratch and think through:

- Basic monthly expenses like housing, food, gas, cable, phone, insurance. Can you pare these back?
- Discretionary expenses like dinners, trips and purchases. Set \$ limits, track spending so you stick to them.

LONG-TERM SPENDING

These are big-ticket items like a new car, a home improvement project, a very expensive vacation. Can you modify the spend downward, or can you spread it out over a period of time?

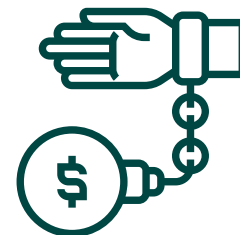
Beef Up Your Emergency Fund

The best use of money you uncover in your budgeting and spending review is to beef up your emergency fund. Three-to-six months of living expenses is the goal, or you can do it as a replacement of salary for given period of time.



Pay Down Debt

Interest rates are higher than we've become accustomed too. Consolidating high-interest debt is a great place to start. Make sure you pay off credit card balances every month.



Tune Up Your Portfolio

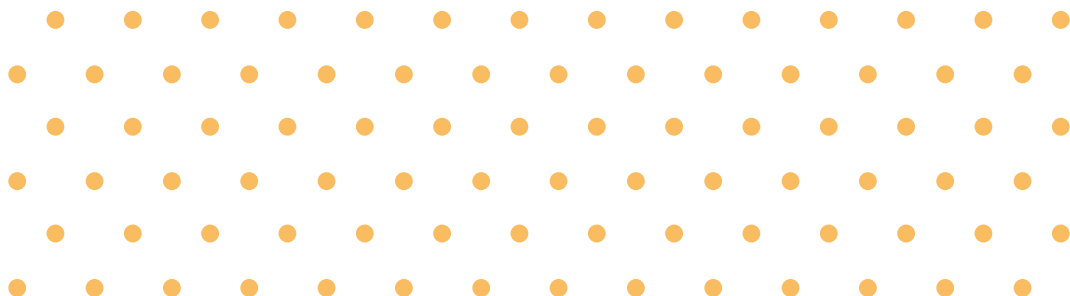
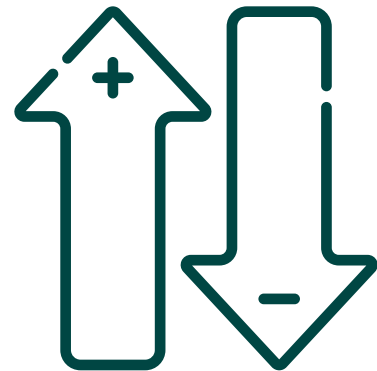
Rebalance Your Portfolio to Keep Risk In Line

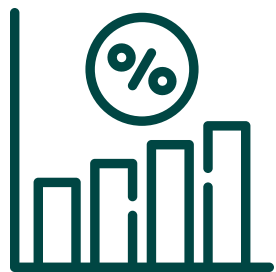
Does your asset allocation still reflect your desired risk exposure?

Has your risk profile changed?

01

Review your short- and long-term goals to be sure that your investment plan still works. Sell assets to nudge your portfolio back in line with your preferred risk parameters and market views.





02

Adding diversification can help to cushion your portfolio, and there may be assets that represent better value or growth potential now that prices have declined.

03

Shifting to a more defensive posture, in sectors or companies that are less sensitive to inflation and better positioned for a downturn may make sense.



Inflation may be outpacing the income generated by the bond portion of your portfolio, but remember that bonds may have a role to play in reducing volatility. Over the long term they generally have lower volatility than equities, which can help to smooth your portfolio returns.

02

Take Advantage of Lower Asset Values

Tax-Advantaged Savings

Volatility can drag down markets. This means money invested now buys you more, which can then potentially grow. You also want to be sure you are maximizing the tax advantages now, as this is a way to keep more of your income.





401(k) and IRA savings should still be maximized, but dollar-cost average into these investments

Education savings in 529 plans grow tax-free and may have state tax benefits



Health savings accounts (HSAs) are triple-tax advantaged – they reduce your income, grow tax-free, and qualified withdrawals are tax-free

Reap the Tax-Loss Harvest

Sell depreciated assets and use the loss to offset the capital gains taxes on assets that have appreciated. This is particularly effective in offsetting capital gains on equities that you own at a low basis or have held for some time. And given the long bull market – you probably have some of these in your account.

Even if you don't have offsetting capital gains, tax-loss harvesting can still make sense.



This Year

You can use up to \$3,000 of losses (\$1,500 if married filing separately) to offset your current ordinary income.

Every Year Until Exhausted

You can also carry the loss forward, offsetting \$3,000 (\$1,500 if married filing separately) annually

Consider a Roth Conversion

Maximizing income in retirement isn't just about investing – it's also about keeping taxes low. A Roth conversion is a source of tax-free income. You withdraw from your tax-deferred account, pay the tax and invest in a Roth account.



There are no income limits on conversions, but the withdrawals are taxed as ordinary income.

Lower asset prices mean you're paying less in taxes.

As asset prices recover, growth will be tax-free, and future withdrawals will be tax-free.

And because you've already paid the tax, RMDs are not imposed.

Will This Matter in Five Years?

It may be a wellness cliché, but it's a good way to think about managing emotion now for long-term investors. It's painful to look at statement balances. But history tells us that markets do recover. Over the long-term downturns are followed by gains. If you stay in the market, your persistence will likely be rewarded. If you sell, you turn a paper loss into an actual loss.



One way to stay focused is to think about your goals. Your plan has likely incorporated your risk tolerance. This is the balance of the growth you want, with the drawdown potential you feel comfortable with. Your investments are mapped to your goals. If your goals haven't changed, your investment strategy shouldn't either.

DISCLAIMER

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