# FINANCIAL PLANNING IN VOLATILE MARKETS: THREE RELEVANT ACTION ITEMS FOR TODAY

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There is one timeless, universal truth that governs financial planning and wealth management: nobody can predict or time the markets or returns. The overall uncertainty and economic volatility caused by COVID-19 and other happenings in this world have created a completely unprecedented "new normal" upon all of us. The opening statement above could not be more apparent or alive.

Most of us have heard the advice to "stay disciplined" and "maintain a long-term approach" when it comes to our finances and investment accounts during down markets. Frankly, while wise, that advice can feel very broad, and at times, maybe a bit disingenuous or insensitive when we look at the very real impacts going on around us. A wise mentor always advocates for "controlling the controllables." How do we find more applicable, relevant and comforting "controllables" in times like these? Whether the root financial environment is a pandemic, economic crisis, an election, time of war, etc., here are three action items that you can choose to take control of today and ideally feel more financially secure.

## 1

**Create or update your unique, customized financial plan: a true financial plan tests and clarifies your current picture, as well as the "roadmap" toward financial security. Down markets are normal and regular. A financial plan is a very important financial tool to have during times like these.**

In today's world, every financial advisor, planner, consultant, representative (you pick the title!) claims that they "do financial planning." In reality, a financial professional must say this in order to stay credible in the marketplace given the services most clients expect (and also deserve). Many, however, cannot or do not deliver on a true, comprehensive financial plan for one reason or another. A high-quality financial plan is offered ideally through a CFP® professional that is willing and committed to honor a fiduciary responsibility, and act in clients' best interests. The financial services regulatory and compliance bodies have done a good job updating recent standards for more advisors to abide by, but CFP® professionals are professionally trained to design and customize a plan. Having a comprehensive roadmap that considers retirement, education, cash flow, insurance, estate, and tax planning (and understanding how all of these different pieces function and co-exist for prudent financial decision-making) is especially valuable during uncertain times. The goal of pairing the "roadmap" with prudent recommendations (the "game plan") is to help clients be as financially secure as possible. The end results are senses of clarity and empowerment from a well-communicated financial plan that help to navigate the uncertainty. Everyone deserves a solid plan to determine where they stand and what can be controlled today through a great game plan. What better time to stress-test a fiscally conservative, fiduciary-based financial plan?

## 2

**Reframe the unfavorable situation and take advantage: many positive things can be accomplished during down markets.**

You heard me correctly on the above statement. What could possibly be accomplished during down markets, aside from staying disciplined emotionally and keeping a long-term approach with our wealth? Here are some examples of actionable techniques that could make a big difference from a planning standpoint, especially when the surrounding outlook appears very bleak. Spoiler alert: all of these decisions are most effectively evaluated through having a great financial plan in place first.

**Rebalancing and risk tolerance testing:** Taking advantage of rebalancing an investment portfolio while the markets are down can prove to be extremely effective. The process allows an investor to get back to their true risk tolerance and asset allocation, effectively buying equities at potentially lower costs. The same can also be said for considering investing long-term dollars on a market downtick (usually excess cash). As an example, while again, nobody can predict or time the markets, do you like to buy holiday gifts for others when they are full-price or on sale? Speaking of risk tolerance and asset allocation, remember the idea of stress-testing a financial plan during volatile markets? What better time to also stress-test and understand a person's true risk tolerance? A down market will expose (in a positive way) a client's ability to handle real portfolio volatility. If a client communicates in a time when they feel comfortable that they are an 80/20 stock-to-bond and cash investor, but during something factually uncomfortable like COVID-19, they express fear and anxiety that would have been tolerated better in a 60/40 portfolio, that is a significant behavioral response to address and make adjustments at an appropriate time.

**Roth conversions:** For many clients, under current tax legislation, Roth IRA and 401(k) conversions have proven to be a great long-term strategy to take advantage of for their current or eventual "retirement paycheck." Many financial planners, along with the blessing of a client's tax professional, are currently helping suitable clients convert portions of their traditional retirement accounts to Roth accounts each year, paying ordinary income taxes today at potentially lower rates. What better time to do the next scheduled conversion if the account values are down and potentially take "a bigger bite out of the apple" with the same tax bill? So many provisions from the recent SECURE and CARES Acts have opened up numerous planning opportunities in addition to Roth conversion. Do you understand how your unique retirement paycheck is designed and ideally optimized?

**Risk management planning:** Not many people have an inner desire to install necessary insurance policies or get their estate planning done. Another saying that "defense wins championships" sounds wise and important, but often times psychologically difficult to pull the trigger on during normal conditions. What better time to leverage a virtual meeting with an estate planning attorney to potentially save time and effort? What better time to go through the insurance underwriting you've been putting off while certain conditions through some companies might be more comfortable for you? Whether it's the carrot or (hopefully not) the stick with everything going on around us, is now potentially a good time to finally put identity theft protection in place? On many things, we can finally check the 'uncomfortable boxes' that have been recycled on the to-do list more times that we'd like to openly admit.

## 3 Build and bolster your solid foundation: fundamentals and teachable moments occur during these types of times.

Cash is king. During difficult times, we see the importance of fundamentals as plain and boring as something like cash. Good rules of thumb are to have 6 months' of expenses while working and 1-2 years' worth of expenses in retirement of cash on hand. This becomes especially important during times of financial hardship through job loss or health care needs due to the pandemic, as examples. In the specific case where someone isn't where they need to be on cash reserves, but is fortunate enough to retain a good job and their income without much change in current expenses, what better time to hit the pause button and save some extra cash with certain things still shut down? Cash can also serve as a great hedge to allow an investment portfolio to heal from losses and protect the "retirement paycheck" mentioned above. If we still have a fundamental need in our financial planning, whether it be a proper cash emergency fund or something else, let's not wait until it becomes a teachable moment during a down market. You have probably noticed the consistent, polite challenge throughout this article, but what better time to build and bolster the foundation of your financial house?

**Please contact your relationship manager if you have any questions or thoughts for BT Wealth Advisors.**

**Stay well and be safe!**



[1] Rebalancing a portfolio may cause investors to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss.

[2] Traditional IRA account owners have considerations to make before performing a Roth IRA conversion. These primarily include income tax consequences on the converted amount in the year of conversion, withdrawal limitations from a Roth IRA, and income limitations for future contributions to a Roth IRA. In addition, if you are required to take a required distribution (RMD) in the year you convert, you must do so before converting to a Roth IRA. A Roth IRA offers tax deferral on any earnings in the account. Qualified withdrawals of earnings from the account are tax-free. Withdrawals of earnings prior to age 59 ½ or prior to the account being opened for 5 years, whichever is later, may result in a 10% IRS penalty tax. Limitations and restrictions apply.

[3] The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. Investing involves risk, including possible loss of principal. No strategy assures success or protects against loss. This information is not intended to be a substitute for specific individualized tax or legal advice. We suggest that you discuss your specific situation with a qualified tax or legal advisor.