ADDRESSING MARKET VOLATILITY IN TODAY'S WORLD

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INTRODUCTION TO MARKET VOLATILITY

Planning for retirement is never a "set it and forget it" task. There are unexpected disasters, market drops, and changing laws that could cause retirees to reevaluate their financial situation. Ultimately, there's no way to predict everything that will cause market downturns. However, you can prepare yourself for one by having a solid financial strategy in place. The most recent bout of market volatility may not be the last you'll see in your lifetime. So, why not have a strategy to address future market drops? If you're concerned about your financial security as you near and enter retirement, assessing your risk tolerance, reevaluating your portfolio, and seeking professional advice could be a good idea.

Ultimately, retirement shouldn't be a time of anxiety or worry, it should be a time when you feel financially secure and can enjoy the lifestyle you've worked hard to save up for. There are ways to protect against market volatility other than delaying your retirement or keeping your money in your mattress. There are also ways to mitigate risk and take advantage of opportunities, even in volatile times.

Knowing what to do can be complicated, but for now, let's start with some practical advice about how to address market volatility.

THE BASICS OF HANDLING MARKETING VOLATILITY

Avoid Early Withdrawals From Your 401(k) or IRA

While this might seem tempting during volatile periods, it's typically not a good idea to cash out of your 401(k) or IRA. If you withdraw money before age 59½, you could have to pay the early withdrawal penalty of 10%. If you are over 59½, you are not subject to the early withdrawal penalty. However, keep in mind that withdrawals from a 401(k), IRA, or other traditional retirement strategies will be taxed as ordinary income.[1]

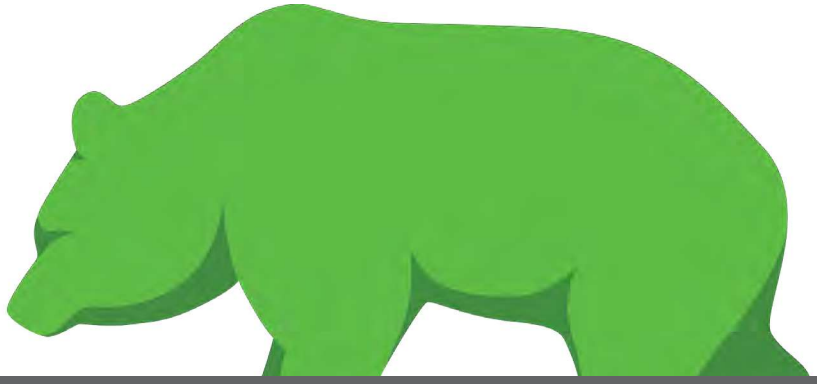
Keep Emotions Out of Your Decision

This can be an easy trap to fall into when your financial security is at risk. You may want to pull all your money from the market when it drops to save your investments, but it may be wiser to allow time for the market to recover. Regardless of the specific case, your strategy should be constructed for the best and worst of times so your strategy isn't simply your fear when the road gets bumpy.

Stay Informed, Not Paranoid

While it's important to know what's going on, there's such a thing as being too glued to the media. Headlines often report a worst-case scenario or even exaggerate to get as many eyes as possible. Read with caution, try to only digest the facts, and take breaks from the media cycle to destress. One way to filter out the facts from the editorial is to check in with your financial professional about certain events that have you worried. Chances are, if you've built your strategy with the right partner, you have an idea of what to do when a bad scenario occurs.

WHAT IS A BEAR MARKET?



A bear market is a technical term used commonly in the financial industry, it means that the market has fallen roughly 20% or more from recent highs due to widespread panic or pessimism.[2] The reason it's called a bear market is that when a bear attacks, it swipes down with its paw. The reason the opposite of a bear market is a bull market is that when bulls attack, they lift with their horns.[3]

Bear markets are often associated with declines across the market, but specific sectors can be said to be in a bear market even when the market is doing well, and vice versa for bull markets. Especially now when people deem the current recession as a rolling recession—when different parts of the economy contract at different times—there are still many opportunities to maintain your financial stability.

WHAT IS A BULL MARKET?

A bull market, on the other hand, refers to when the market is on the rise. It can apply to the stock market, as well as bonds, real estate, currencies, and commodities. It's commonly defined as a time when stocks rise by 20%, often after two drops of 20% each.[4]

MARKET VOLATILITY MATTERS RIGHT AFTER YOU RETIRE

The state of the market at the time of your retirement is not within your control. Even if you've saved diligently your whole working life, a market downturn around the time of your retirement can have a serious negative impact on your wealth in the long term. In fact, two retirees with identical wealth and investment portfolios can have quite different financial outcomes depending on the state of the economy when they begin retirement.

Someone retiring during a bear market might see their portfolio recover as the market does, but they will also see a reduction in the overall return of their portfolio because of how much they had to withdraw to cover their costs when stock prices were down. Withdrawing funds while your portfolio loses value can negatively affect your overall returns throughout retirement.[5] This is called the sequence of returns risk and should be accounted for in a solid financial strategy.[6]

If someone with a similar portfolio retires during a bull market, they can cover their costs by withdrawing less equity, lowering their risk of running out of money from over-withdrawing. However, this doesn't mean that you can't retire during a bear market.

YOU CAN'T ALWAYS TIME THE MARKETS

While taking on some investment risk in retirement can be fine depending on your situation, there can be problems with a "timing the market" approach. To successfully time the market, you have to correctly guess when to get in and when to get out. If you're thinking about retirement, your age may dictate when you get in or out—a factor you can't control.

Unpredictable real-world events, such as a global pandemic or natural disasters, can cause market volatility.[7] There is simply no way to foresee all the periods of market or economic turbulence that may occur throughout your retirement. While it may be manageable to see a market drop in your younger years given how much time and future income you have to recover, a downturn can pose much more of an obstacle as you near and enter retirement.

UNDERSTANDING MARKET RECOVERIES AND UNCOVERING THE NUMBERS

There will always be recoveries as long as there are market drops. Over time, the market has gone up with periods of volatility along the way. In order to time the market successfully, someone not only has to avoid the drop, they also have to catch the rebound. In a worst-case scenario, someone might panic and sell when prices are down, thus locking in their losses and missing out when the market recovers. Then, once it recovers, they buy at the relative highs and watch their investments sink again.

A major rebound could happen in a single day, making the probability of missing it high if your strategy involves timing the market exactly. Consider the findings of a study on what would happen to the S&P 500 index returns from 1993 to 2022 if an investor missed the best 10 to 30 days of the index's performance.[8]

Past performance does not guarantee future results. Indices are unmanaged and not available for direct investment. For illustrative purposes only. Data Sources: Ned Davis Research, Morningstar, and Hartford Funds, 2/23.

5 WAYS A FINANCIAL PROFESSIONAL CAN HELP ADDRESS MARKET VOLATILITY

1

We Can Help You Assess Your Risk Tolerance

Since the market, your financial situation, and your goals change over time, it's important to assess your risk tolerance periodically and update your investment strategy accordingly. While the market will eventually recover, you may not necessarily be able to ride out the storm. As the famous economist, John Maynard Keynes once said, "Markets can remain irrational longer than you can remain solvent."[10]

2

We Can Diversify Your Portfolio

This seems like a simple piece of advice, but knowing how to diversify your investments can be more complicated than you think. Diversifying to mitigate risk is important because performance in any one asset class is unpredictable—no matter how "safe" it may seem. We can help you determine what portion of your portfolio should be in each, as well as help you consider alternative investments and financial moves such as real estate.

3

Help Protect Against Longevity Risk

We're living longer than ever, which means that retirement savings much stretch further than ever.[12] Guaranteeing a steady income stream to cover your basic needs is an important part of planning for retirement. Market volatility and inflation can put you at risk, but there are ways to mitigate this. We can help you turn your nest egg into a steady income stream that can last throughout your retirement.

4

Find Tax Minimization Strategies

Your IRA may have taken a hit due to a market downturn, but this may offer some tax-saving opportunities. Converting part or all of your traditional IRA to a Roth IRA could allow you to pay taxes now in order to potentially save on future higher taxes.[12] Basically, you would pay tax on the funds converted and then be able to take tax-free distributions from your Roth IRA later in retirement.[13] Since your tax bill at the time you convert would be based on the value of the assets in your IRA, it might be lower after a market drop. After funds are converted to a Roth IRA, they can grow tax-free as the market bounces back, and be withdrawn tax-free when you need it.[14] Also, consider that taxes are relatively low at this time and may rise in the future.[15]

An insurance-licensed financial advisor can help you properly execute tax-minimization strategies during upswings or downswings in the market and can use their knowledge of your unique financial situation and the economic environment to help you make prudent decisions.

5

Answer Your Questions

There's so much information and advice out there, but if it's not advice informed by your unique financial situation, it may not apply to you. The benefit of having one person oversee your retirement strategy is that they can help your whole financial picture, including: Social Security optimization, tax minimizations, risk management, investing strategies, estate planning. What's more is they can be managed and constructed in accordance with each other. We can help you create a strategy based on your unique financial and retirement goals and adjust them based on your specific situation.

Reach out to us today to get started on optimizing your financial situation through volatile and smooth market and economic conditions.

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ILG FINANCIAL LLC
Income. Legacy. Growth

ILG Financial
100 Oakridge Drive
Stafford, VA 22556
(540) 720-5656

www.ilgfinancial.com
info@ilgfinancial.com

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