

Is Economic Volatility Here to Stay?

There are ways to manage it.



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Natural disasters, European and US debt concerns, corporate personnel turnovers, credit downgrades, political turmoil in the Middle East, ever-changing domestic employment and housing figures – all of these factors have created a yo-yo effect on stock markets worldwide. It seems we need to continue to expect the unexpected when it comes to the economy and investments.

It is interesting to note that even in the most uncertain economic climate, there are investors who continue to thrive. What's the key? Don't panic, always take the long view, and keep your eyes open for unexpected opportunities. Here are some

practical guidelines to help you find consistency in this time of uncertainty.

Stay Steady, Even if the Market Won't.

The first thing to remember when the markets bounce is that, by definition, market cycles have ups and downs. The best bet for riding out market uncertainty is to do just that: ride it out. If you are an investor, you need to give your investment time to grow. Historically, stock values have risen over the long term. If you've balanced your portfolio properly, you may potentially come out ahead over the long haul, even after a prolonged down or bumpy period.

The second benefit to staying in the market is that you are poised for gains when it rebounds and stabilizes. It's impossible to know that the market has hit bottom until well after the fact. By then – even if the recovery is V-shaped (that is, a quick, steep decline followed by a sharp, strong recovery from the bottom) or W-shaped (the dreaded 'double-dip recession' marked by a recession followed by a short-lived recovery followed by another recession) stocks may have made significant gains, and if you're not already in the market, you could miss out on those initial gains. Additionally, if you've sold when the market is down, you've solidified your losses, with no opportunity to make that money back. However, you may want to sell even in a decline if you need to realign your portfolio or to realize losses for income tax purposes.

Shore up your fundamentals.

A period of market uncertainty is the perfect time to revisit some of your most basic financial foundations. Taking a realistic look at your current financial picture and making appropriate adjustments can help you in these challenging times. You can't control the market, but there are elements of your financial situation that you do have control over. Read Financial Health Checkup for more information.

1. Review your budget. Look for non-essentials you can eliminate or cut back on, especially if your income has dropped. (See Helpful Forms, Budget Sheet.)

2. Look at your cash balances. Do you have enough cash set aside for your short-term (1-5 years), mid-term (5-10 years), and long-term (10 years-retirement) goals? A common guideline is to set aside six months of living expenses for an emergency reserve. If your job is in jeopardy, though, consider setting aside a full year of living expenses or more. You may want to build up your short-term/emergency cash reserve in addition to making mid-term and long-term investments; it is seldom a good idea to put all of your money into long-term investments and neglect mid and short-term needs.

3. Check your portfolio allocation. Make sure your investments are diversified in a way that meets your growth and income goals for the short, mid and long-term. You may want to consider investing in vehicles that can help provide retirement income.

4. Check in on your risk tolerance. You probably haven't changed, but your circumstances might have. Look deeper and beyond the rating services. Review your investments to see if the risk level of any of them makes you uncomfortable; this will also give you a handle on how ready you feel to redirect money into any new investments now.

5. Look for opportunities for tax benefits. One possibility is to convert traditional IRAs, which are taxed when you take funds out, to Roth IRA's, which can be tax free if you follow the withdrawal rules. Converting when an IRA has lost significant value will require you to pay taxes on it now, but you'll likely pay less than if you wait until it has regained its full value or greater. This may be an opportunity to bargain hunt and reposition your money by buying something on your list and allow your portfolio to grow in a Roth IRA which may allow tax free withdrawals.

6. Make sure you are protected against identity theft. Along with market volatility, identity theft is likely to remain a threat. Make sure you've taken whatever steps you can to protect what you've worked so hard to accumulate.

Visit <http://www.justice.gov/criminal/fraud/websites/idtheft.html> for more information on protecting your identity.

7. Don't despair. You are not helpless. There are many things beyond your control, so focus on what you can control.

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Has your financial advisor been in contact with you? Is s/he doing everything possible to realign your portfolio for volatile times? Hearing “Stay the course” is no longer good enough, so it may be time for a second opinion. See the Paladin Registry, (www.paladinregistry.com) a free independent public service that helps consumers find high quality professionals who have the documented competence and integrity to help them pursue their goals and to avoid the risks and consequences of bad advice. The site has four-star rating from Kiplinger.com for its wealth of free articles and resources for consumers.

Develop a market re-entry strategy and decide when you are ready.

Opportunity may not knock, but you can still find it.

For those who have cash available and can afford some risk, there are opportunities in an uncertain economic climate. What products or services will people still need? What products are you using? What are your friends and family doing? Be aware when your investing instincts are coming from an emotional place, not a rational one. Do your homework; consider investing in areas you understand and are comfortable with. There may be segments of the economy that are rebounding after a decline early in the down cycle. Is there a particular sector that is seeing a surge of interest, either locally, regionally, nationally or internationally?

Once you’ve identified investing opportunities, start with a small investment and continue adding regularly over time. In a

volatile environment, dollar cost averaging (investing a fixed amount at regular intervals) helps you benefit from price swings and uses volatility to your advantage.

Despite the numerous natural, political and economic events that continuously shape and change the global economy, the uplifting news is that as humans, we come together to aid one another. This assistance inspires new growth and opportunity, and it serves as a transition from crisis to prosperity. The same is true for the market, as nervous investor selling will give way to investment opportunities.

*Dollar cost averaging involves continuous investment in securities regardless of fluctuation in price levels of such securities. An investor should consider their ability to continue purchasing through fluctuating price levels. Such a plan does not assure a profit and does not protect against loss in declining markets.

Heidi Clute, CFP® is the owner of Clute Wealth Management in South Burlington, VT and Plattsburgh, NY, an independent firm that provides strategic financial and investment planning for individuals and small businesses in the Champlain Valley region of New York and Vermont. For informational purposes only. LPL Financial does not offer legal advice or services. Securities offered through LPL Financial, Member FINRA/SIPC.

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