Markets, Viruses and YOU

Jay M. Diamond, Chief Market Strategist
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Dear Scott,

Obviously, the recent market volatility (mostly) due to the concern and uncertainty associated with the coronavirus continues. Over the past few weeks we have been sending articles and information that attempt to put this into context. I won't reiterate the content of these here (although I will encourage you to re-read them), but I will take this opportunity to more specifically address the effects market declines like these can have on *your* financial planning.

The answer to this come down to a few things... try to identify where you fit in:

Accumulation Phase

If you are not currently drawing $ out of your portfolio on a monthly basis or similar (usually because you are working and living off earned income), declines like this won't typically effect your lifetime financial plan. So, essentially, you can stop reading right here...

While nobody likes seeing the value of their portfolio decline, especially a 'bear market" type of correction (20% or more), these types of declines are a natural part of the long-term process. Since you don't need to sell anything now, you're not "selling low" and you're only down on paper. If anything, it might be a good time for you to add to equities, while they are effectively 'on sale.' Your situation is akin to it raining cats and dogs outside, but you have no reason to go outside today, so the (financial) storm really has no effect on you.

Distribution Phase

On the other hand, if you are retired and drawing from your portfolio (or if you're not retired, but making regular distributions from your portfolio), then the impact on your plan depends on how much we're withdrawing, from where, and how long the equity markets decline.

If you're taking a 'reasonable' withdrawal amount (roughly 4%/year or less), then the damage from selling items low may not have a material impact of portfolio longevity. This also depends on your age: if you're 90 and taking a higher withdrawal, this may still be OK. If you're 60, ideally you're toward the lower withdrawal levels.

The other key factor here is how long market declines last. If they are short-lived (say 6 months or less), then regular, reasonable withdrawals at lower market levels may not do much damage. If market declines last longer (1-2 years), then the impact could be more pronounced.

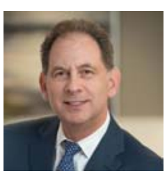
Where you source your distributions matters, too. To the extent that your distributions come from dividends and other naturally occurring investment cash flows, then principal is potentially not being sold at these lower levels. If withdrawals come from "systematic withdrawals" (SWP's) then there can be more of an impact due to above factors as well as the stock/bond allocation of the account(s) used to source the distribution. Under this current equity market decline, many bond categories have either held up well or gone up in value, as hot money has left stocks and bought bonds - pushing those price up. The Fed also recently lowered interest rates, which also has a tendency to increase bond values. The point of this is that you may be selling to support SWPs from a more balanced type of strategy. In this current market case, diversification between asset class has softened overall portfolio volatility and helped to "cut the bottoms off" to some degree, which does help when in some sort of a withdrawal mode.

Besides diversification among asset classes being a timeless recommendation for most people, having an appropriate cash reserve is also useful, especially for those in the distribution phase.

While we've discussed much of the above previously, it's useful to revisit these concepts, strategies and realities to see how the inevitable market declines practically impact your personal situation. Once armed with this info you should be less likely to react emotionally which, as we have seen time and time again, is the most damaging thing you can do for your lifetime financial well-being.

As always, keep the faith as this, too, shall pass. Please feel free to assess your personal financial planning with your Investmark advisor.

Best regards,



Jay M. Diamond, Chief Market Strategist, Managing Principal

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The Direction of Wealth

Investmark Advisory Group
Shelton - Stamford - Glastonbury
Corporate Offices:
3 Enterprise Drive, Fourth Floor, Shelton CT 06484
Tel: (203) 953-3777 (800) 443-1006
Email: info@investmark.net

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