What Investors Can Do Now

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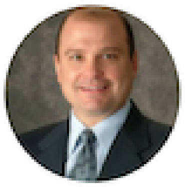

Mark Avallone, CONTRIBUTOR
I help people on their path to Financial Freedom. FULL BIO
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As any investor knows, the COVID-19 virus has recently put the stock market on a vicious roller coaster. After a quick and severe drop of almost 40%, as of April 13th, the stock market has recovered almost 30%. Unfortunately, we still need another 20% bounce in order to reach our prior all-time highs. Nevertheless, the recent rally gives investors a chance to tweak their investment portfolios to be more in line with their financial goals and their emotional comfort zones.

GETTY...Couple meeting virtually with advisor

Many investors are voicing concerns that this volatility has impacted not only their financial health and retirement funding, but also their personal happiness and overall wellness. Given the aforementioned market rebound, now is an excellent time to consider some protective steps in advance of the next inevitable stock market decline. Here are a few considerations for investors now:

Ask yourself how the stock market news has been impacting your health. The performance of your portfolio is not worth a loss of sleep, increased stress, reduced quality of life or shortened life expectancy. If you're experiencing a significant negative effect, then you may want to recalibrate your asset allocation to lower your risk. Consider what is optimal for your unique situation. If you have a need for long-term growth, I am not suggesting entirely exiting stocks; but you can consider trimming some risk to get into your true comfort zone. If deciding on an optimal asset allocation is a complex calculation, consult with a trusted financial advisor, whom you thoroughly vet and review.

Consider tax loss harvesting. Prior to February, the stock market was on an eleven-year incline, which often resulted in taxable, realized investment gains. In addition, many mutual funds—which are required to distribute their realized gains—passed along those gains to shareholders whether or not the investor sold any shares. And, due to the continuing trend of net mutual fund redemptions, passing along unwanted taxable gains may continue

So, look at what assets you can sell at a loss and reallocate in line with your current investment objectives. Remember, as long as you adhere to the IRS 'wash sale' rules—which among other guidelines require you to avoid purchasing a substantially identical stock or securities in a fully taxable trade—you can reinvest the proceeds into the same asset class. You should consult your tax advisor, and if you fully adhere to the IRS guidelines, you can at least get some tax benefit from this debacle.

Put some excess cash to work. This is not a forecast that stocks will perform well in the next few weeks, months, or even this year. It is instead a call for long-term investors to assess their own goals and risk tolerance and consider asset classes, including stocks and bonds, that may provide better long-term prospects than lowyielding cash. This may be especially prudent with 'The Fed' lowering interest rates. Lower interest rates hurt cash returns in banks, and for many long-term investors, earning a cash yield that is taxable and lower than the rate of inflation can be damaging to their retirement plans.

Set up an automatic investment schedule. Emotions run high when stocks experience daily swings of 1% to 5%. Therefore, if you are fortunate to still have excess cash in bank accounts or a regular paycheck and discretionary monthly cash flow, consider automatically investing at least a small amount of your cash on a regular basis. While the stock market may still go lower, picking the exact bottom is not an easy task; for many long-term investors, it will matter more that you ARE invested versus WHEN you invested.

Consider a retirement income annuity. Annuities are complex and expensive retirement income products that are issued and guaranteed by insurance companies (not federal or state governments). But annuities can also provide a certain level of predictable retirement cash flow for a lifetime.

I am aware of many unsavory sales practices by licensed annuity salespeople, and I routinely see the wrong type of annuity sold to a person who may have benefitted from a contract with different features. I also see annuities sold to people who didn't know what they were buying, or sales made to folks who didn't need to pay extra for this type of product. But annuities, if you carefully select one that works for you and your situation, can help reduce uncertainties around your lifetime income. Therefore, they are worth looking at; but if you do, please carefully review the product and the risk disclosures.

This partial stock market rebound allows investors a mini 'reset' on what they wish they had done before the crash started. If you are feeling some regret in that regard, now may be a good time to take some action. Examine your risk tolerance and asset allocation, take some tax losses where possible, and if you are able, continue to invest cash automatically on a regular basis. If investing is the last thing your risk tolerance can stomach, then carefully consider adding a retirement income annuity to your mix.

Contributor's Bio

Mark Avallone is the author of Countdown To Financial Freedom, and founder and President of Potomac Wealth Advisors, LLC a financial advisory firm serving clients through holistic financial planning and wealth management. Avallone writes on a variety of financial topics, and his contributions have appeared in the Wall Street Journal as well as in Forbes where he is a regular contributor. He has appeared on CNBC and has been a repeat guest on the Fox Business Network. His insights have also appeared in USA Today, U.S. News & World Report, The Washington Post, and other leading publications.