REFLECTIONS

Client Newsletter

WINDGATE
WEALTH MANAGEMENT
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ACTIONS TO TAKE IN FALLING MARKETS

It is a stressful time in many ways. Markets are down, prices are up for things you need to buy, and talk of recession is looming. It is understandable if you are stressed out about what is happening right now in your portfolio, but there is a better mindset that can keep you from making any big mistakes.

We want to focus on what we can control and not let ourselves be distracted by things we cannot. We know many investors feel a powerful drive to do something in response to a bear market, as they should. But most commonly when markets are down sharply, the action desired is to sell stocks. While this creates a sense of control that can make people feel better in the moment, most often in these situations it is exactly the wrong thing to do at that time.

Market timing, while tempting, involves getting two nearly impossible decisions right: when to sell and when to get back in. On the following page is some updated information about the impact of making reactionary investment decisions.

INSIDE THIS ISSUE

If you have any questions or comments, or if you know of any friends or family that might benefit from our services, please give us a call at 844.377.4963

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Missing the Best Days

This table shows the fifteen best days for the S&P 500 since 1950. Surprisingly, all of them occurred within bear markets, not bull markets as you might expect. That is, the big upturns in the stock market can happen during times when it is hardest to remain invested or tempting to get out of the market and wait for better days. Looking at these dates, you will find the who is who of dark times for the stock market: the 2008 financial crisis, the dot-com crash, the Black Monday crash of 1987, and the pandemic-driven market decline in 2020.

By trying to miss the worst days, investors are very likely to miss the best days. Missing just the ten best days (out of more than 17,500 trading days since 1950) has a huge long-term effect on a portfolio. For example, an investor who invested $10,000 in the S&P 500 in 1950 would have gained 7.9% annualized and finished with a portfolio value of more than $2.38 million (as of 5/10/2022) if they had remained fully invested (not including dividends). The final portfolio value for an investor that missed the ten best days is well below half that amount at roughly $1.07 million.

15 Best Days Since 1950

Day	S&P 500 % Gain
10/13/2008	11.6%
10/28/2008	10.8%
3/24/2020	9.4%
3/13/2020	9.3%
10/21/1987	9.1%
3/23/2009	7.1%
4/6/2020	7.0%
11/13/2008	6.9%
11/24/2008	6.5%
3/10/2009	6.4%
11/21/2008	6.3%
3/26/2020	6.2%
3/17/2020	6.0%
7/24/2002	5.7%
9/30/2008	5.4%

Remain Invested, Stay Disciplined, and Seek Actionable Opportunities

So again, we want to focus on what we can control and not let ourselves be distracted by things we cannot. What should you do? Below are several of the more common actions we are recommending:

Rebalancing. Rebalancing means selling some of your better performing investments and buying a bit of your laggards ("sell high" and "buy low"). Even in a difficult year when there are few "sell high" candidates, some investments will have done relatively better than others, even if they are both down temporarily. This can provide an opportunity to focus investments on what might have the better upside opportunity as things turn around.

Use market declines as an opportunity to harvest tax losses. A downturn in prices is not what we hope for when investing. But one way to make lemonade out of those lemons is to sell securities that are down from their purchase price. By "harvesting" those realized losses they can be used to offset taxable realized gains. This tax-saving strategy can be helpful today and possibly for many years into the future, since realized capital losses can be carried forward on your tax return. As we harvest losses, the proceeds from those sales are used to purchase investments in a similar category, so your portfolio allocation and opportunity to catch an upswing stay intact.

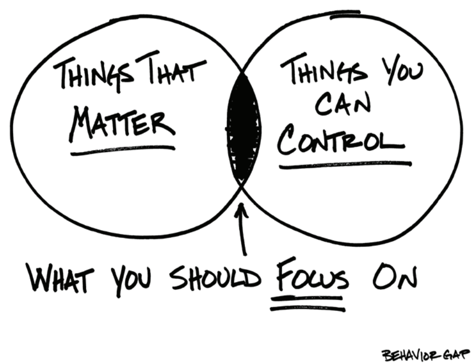
Confirm an appropriate "emergency fund. One of the best strategies to help you sleep at night and allow yourself to stay invested during market volatility is to establish an "emergency fund" of cash not invested in the market. We collaborate with clients to make sure they have an appropriate amount of cash set aside to fund either spending needs or just as an emergency fund. This is something we can discuss with you if it is an area of concern.

Revisit financial planning and/or cash flow projections. By reviewing how your resources will support cash flow needs into the future, we can help ensure that your spending should be sustainable. And if making changes to expenses in the near term would be advantageous, that could be a positive step to take during a challenging time. Reviewing scenarios for how the future may play out can be extremely helpful in creating the appropriate context for making decisions today.

Consider a Roth IRA conversion. Roth conversions offer the opportunity to transition investments from a traditional tax-deferred IRA account to a Roth IRA, where they will benefit from tax-free growth going forward. The conversion will be taxable, but a market downturn could be a suitable time to make this transition with assets that have fallen in price, as their subsequent growth when the market recovers will be in the tax-free Roth IRA.

Take breaks from the 24/7 news cycle. We encourage you to take time away from the news and daily updates. The constant news feed is focused on getting attention and benefits advertisers, not investors. It can be overwhelming to the viewer, and that can lead to unnecessary stress and anxiety. It is important to stay both physically and mentally healthy so you can make the best decisions for your overall benefit.

If you want to make drastic moves in your portfolio related to market events that you have no control over, try making a list of all the things you do control. How much you are saving, evaluating the way you invest, spending less, where you aim your focus and energy. Just imagine what kind of positive impact this may have on your life. We can assure you it will have a beneficial one to your portfolio.



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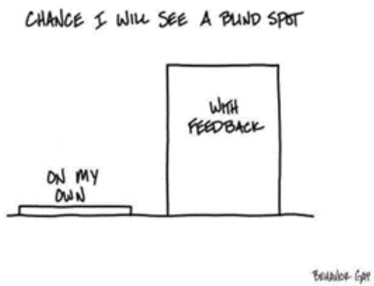
THE 4 BIGGEST MONEY MISTAKES WE SEE



Mistakes are a part of life. We all make them. But it is important to understand how you handle the consequences of mistakes, and what can you learn from them. If we can do some of the learning for you, before you suffer a financial setback, even better.

When it comes to finances and managing money, practically everyone has blind spots. It pays to have someone else help you see the mistakes you might make. Below are some of the biggest and most common money mistakes we have seen working with families for over three decades.

1. Not Anticipating the Difference Between "Risk Averse" and "Loss Averse"

Risk is fundamental to investing. Without risk there is no return, and smart investors build their portfolios based on how much risk they are willing to take. Using historical data, you can make some assumptions about how much downside risk will be expected in any specific portfolio, then modify it accordingly based on your needs. Focusing on risk is a sound process, but in practice, the real world can present difficulties. Here's why:

Let's say you had $100,000 to invest and when we asked you during our initial conversation what you would do if the market dropped 20%, you confidently replied: "do nothing or buy more." This is good information, as we know a 20% correction in the market is somewhat common and should be expected. Based on risk, you construct a portfolio that falls about 20% with the market, and you have lost $20,000. This $20,000 is certainly a lot of money, and you do not feel great about the short-term loss, but after reviewing your long-term goals, you realize that $20,000 could be made up with a nice year-end bonus, and you remain invested and stay on plan.

Now let's say you receive an inheritance or sell a business for a large lump sum of $4 million. You invest the amount in the same portfolio as before, after all it has been working well for you and has been well-aligned to your risk tolerance. A year later the market drops 20% again, the exact same market decline as before with the same investment strategy. Only now, that 20% decline on a $4 million portfolio is $800,000. "Enough!" you say. You feel angry at your advisor and betrayed by the market. You sell everything and get out, taking the $800,000 loss with no chance of regaining it when the market eventually recovers.

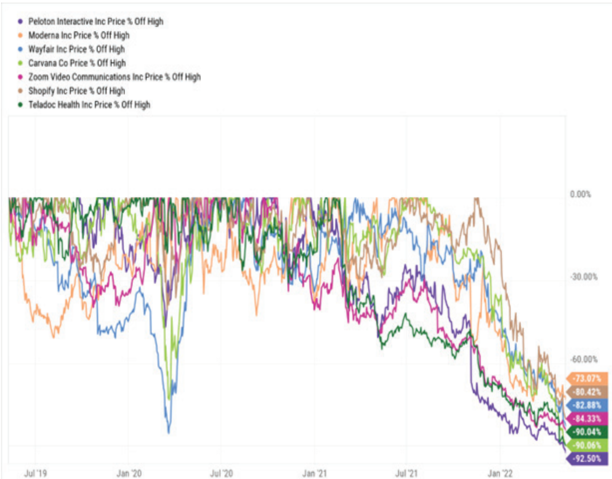
This last example is one of "loss aversion." Loss aversion is more than the desire to reduce risk; it is utter disdain for loss. In fact, individuals experiencing loss aversion have been shown to feel the pain of loss more than twice as strongly as any joy felt from an equally sized gain. Anyone can find themselves in a situation where they become loss averse. It is crucial to understand your own tolerance for not just market risk but dollar losses, especially how these can change over time.

2. Not Understanding Diversification

A lack of diversification is often the largest risk to wealth preservation. Large investments in a single stock or industry are inherently risky and far more volatile than the market. Without diversification, there is nothing to offset the risk of a bad event happening to a single company, potentially leading to a catastrophic loss of capital.

Diversification can be difficult to implement because it is inherently boring. After all, a diversified investment strategy will almost never be the best performing investment in a given year. But it will never be the worst, and by avoiding the types of extreme losses associated with concentrated investments you drastically increase your chances of compounding returns over time.

Take a look below at the chart of previously high-flying pandemic stocks as a great example of concentrated investment risk. During the pandemic, the stocks of many stay-at-home type companies did extraordinarily well. They certainly outperformed diversified portfolios, and many investors likely decided to just put all their investments in these "obvious winners." The other side of this experience is seen below with individual stocks losing as much as 90%. These types of steep losses are nearly impossible to recover from.



Source: Ychart as of 5/20/2022.

True diversification is a risk management strategy paired with a rebalancing process and not a "one-and-done" solution. When utilized properly, it can reduce risk and taxation while helping increase long-term profits. Diversification cannot guarantee a minimum level of return, but it will at least act as a buffer against the inherent volatility of the market by mixing a wide variety of investments and asset types into a comprehensive portfolio.

3. Not Developing an Income Plan for Retirement

Not having a plan for how to earn income during retirement is another common mistake we see with clients. Investing and saving for retirement is only part of the equation. Most people focus on how they need to prepare for a comfortable retirement and often neglect planning for what happens after they retire. Your income plan during your retirement years will also play a major role in how long your money will last.

A well-developed retirement plan should include both guaranteed income, such as a pension or Social Security, and investment income, such as real estate or income from your retirement account. Another important aspect to your plan is determining the timing of withdrawals. For instance, you can start withdrawing Social Security at age 62; however, if you delay taking benefits until you are 70, your benefit amount will increase. Assets like 401(k) plans, Roth IRAs, and annuities are each taxed differently. Timing your withdrawals wisely from each type of account can help reduce your overall tax bill.

4. Not Staying True to Objectives

Lastly, another major money mistake we often see is people getting sidetracked and not staying focused on their initial, long-term financial goals. They may start out with a great plan and are saving and investing, but somewhere along the way, they lose sight of the big picture and stop doing what is necessary to achieve their goals. Sometimes life happens and we need money now, and that can seem more urgent than our long-term goals that are far off in the distance. But if you are not disciplined about your financial situation, it is very easy to get distracted and lose sight of what matters most.

To help you stay committed to your objectives, set small financial goals that gradually add up to larger milestones. Also, make sure to always set aside your emotions when dealing with money. Addressing your feelings of insecurity, anxiety, and fear by speaking with someone you trust will help you stay focused on what is important to you.

Are You Making These Financial Mistakes?

Don't let these common financial mistakes derail your wealth management plan. Windgate Wealth Management is here to help. If you have questions about how to plan for common mistakes such as these, you can reach us by calling (844) 377-4963 or emailing windgate@windgatewealth.com.

Diversification cannot guarantee a minimum level of return, but it will at least act as a buffer against the inherent volatility of the market by mixing a wide variety of investments and asset types into a comprehensive portfolio.

for Charity

WINDGATE WEALTH PROUDLY SUPPORTS THE LEUKEMIA & LYMPHOMA SOCIETY AND THE SCENIC SHORE BIKE TOUR 150

Windgate team member Sean Condon, CFP rode with team Chemo-Sabe during a very special weekend in Wisconsin for the 30th Annual Scenic Shore 150 bike tour. The 150-mile bike tour along the Lake Michigan coast is one of the largest fund-raising events for the Leukemia & Lymphoma Society (LLS). Currently the event has raised $1.5 million in support of a cure for blood cancer. These vital funds will go on to power cutting-edge research, critical advocacy, and free support for patients across the country.

“Riding north from Milwaukee for two days with the lake at our side there was never a moment we wanted to quit,” said Sean. “Seeing the hundreds of other riders, many of them cancer survivors, and being extra grateful for financial donations from some Windgate clients was just a humbling experience. It was an amazing event for a great cause.”

Blood cancers are the number-three killer in the U.S. behind lung and gastrointestinal. LLS invests funds to accelerate innovative, life-saving treatments, and patients are not just surviving, they are living. Since the 1960’s, the five-year survival rate for many blood cancer patients in North America has doubled, tripled, or even quadrupled.

LLS provides complimentary information and support to patients and their caregivers. Additionally, to help patients during this time of crisis, LLS’s financial aid and co-pay programs are critically important.

Anyone interested in learning more about The Leukemia & Lymphoma Society and the Scenic Shore 150 event can visit: https://pages.lls.org/events/vtnt/2022scenicshore150

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All investments carry some level of risk, including the potential loss of principal invested.

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