

How to Make the Most of Down Markets

By Daniel Campbell, CFA

If you have been keeping a pulse on markets, you've seen the significant price swings so far this year. The S&P 500 has moved by 2% or more on 19 days already, while this only happened seven times in 2021¹, and it moved by more than 3% on five days, which didn't happen at all last year. The higher volatility simply means that stocks and bonds are experiencing above-average price changes, with big declines some days and large recoveries on others. Although this can feel scary as your portfolio value fluctuates, this can also be one of the best times to build wealth.

When stocks and bonds are trading at much lower prices, we like to say they're on sale. The price-to-earnings ratio for U.S. stocks, a measure of how much a dollar of earnings costs on average, has gone from 23.9 at the beginning of the year to 19.1 at the end of May². Bond yields are also higher than they have been for a few years, with the five-year Treasury bond yield near 2.9% compared with less than 1.4% at the year's start³. That means stocks and bonds are now a better value—and we expect greater potential for future returns.

For many of our clients, we have already taken advantage of the price changes by rebalancing portfolios and tax-loss harvesting, as appropriate. Rebalancing offers a disciplined approach to the phrase "buy low and sell high," allowing us to move more money into the asset classes that are down the most. Tax-loss harvesting involves selling positions for a loss and moving into a different fund that targets a similar strategy. This approach realizes losses and may reduce your tax bill.

But what else can you do to take advantage of the down markets? Here are three options to consider:

Increase contributions:

If you are making contributions to any account—such as your company retirement plan, a personal IRA or even a trust—consider increasing the amount. Alternatively, if you're comfortable with the risk that markets could decline further, you could move planned contributions to earlier in the year. Adding money now means you can benefit from the recovery when it occurs.

Convert an IRA to a Roth:

This may be a good time to convert a traditional IRA to a tax-free Roth IRA. Although you need to be conscious of the rules around Roth conversions, which your advisor can help with, you could save on income taxes for the amount that you convert since prices are down. Doing so would allow any market recovery to be captured in a tax-free account.

Set up, or add to, a 529 plan:

If you plan to help your children or grandchildren with future education expenses, consider establishing a 529 plan for them—or adding to it if you already have one. Establishing the account now means your initial investment can take advantage of lower prices.

If you are nervous about investing during volatile or down markets, that's OK, too. Many people like to invest a little over time, a technique known as dollar cost averaging. Because markets tend to go up during longer periods, this strategy doesn't tend to be additive in terms of total returns to the total portfolio. But if setting a disciplined investment schedule helps you move out of cash, this can be a far superior approach than not investing at all.

¹ Source: Yahoo! Finance. As measured by the percent daily price change in VOO – the Vanguard 500 Index ETF. As of June 3.

² Source: Morningstar Direct. Based on the Russell 3000 Index. Valuations as of the end of May, retrieved June 5.

³ Source: Bloomberg, as of June 3.

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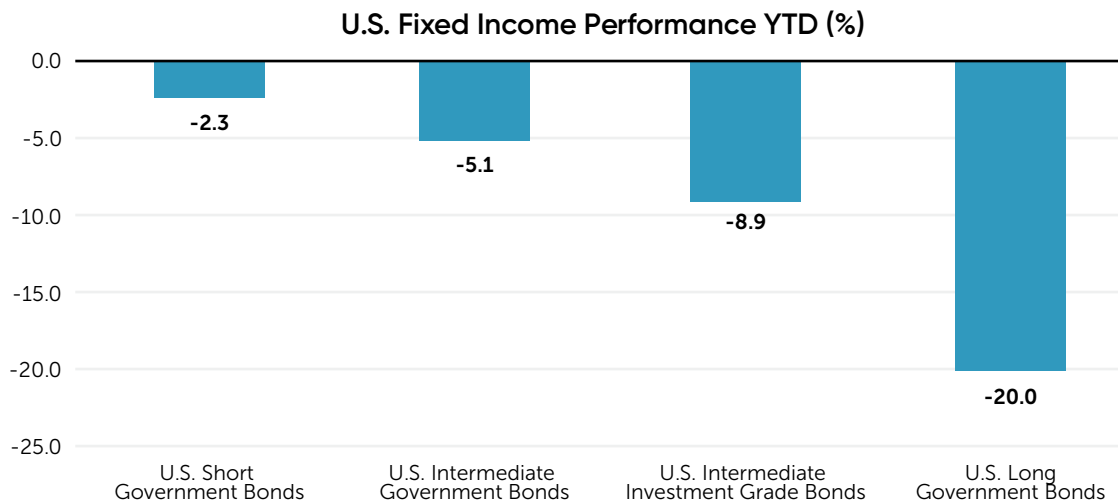
Markets in 2022: A Matter of Perspective

By Alex Kluesner

This year has been yet another filled with uncertainty. And the sources have been more varied than in years past. This should serve as a reminder to us all that the only true constant in life is change, and the same is true in the world of investing. Volatility, on average, begets more volatility, and markets have tested investors yet again so far this year. Even so, perspective shows that it's not all doom and gloom. Let's unpack stock and bond markets' performance and review why it makes sense to stick to your well-thought-out financial plan.

Bonds serve as the foundational bedrock upon which your portfolio is built. They are meant to provide a cushion of modestly positive returns to your portfolio when stock markets are down. But due to significant interest rate increases this year, bond prices have fallen, and investors have been hit with negative returns in both stock and bond markets. Although bonds have not been the safety net we had hoped for so far this year, performance has varied across different areas of bond markets.

Figure 1



The most prominent trend in the chart above is that although buying long-dated bonds can get you more yield, they are also subject to larger price swings when rates unexpectedly rise. Looking at the spreads in performance for short-term and intermediate U.S. government bonds relative to their long-dated counterparts, we see a wide range of relative outperformance of 17.7% and 14.9%, respectively.* Those investors who chose not to extend into lower-rated bonds were also rewarded as intermediate government bonds outperformed intermediate investment-grade bonds by 3.8%.

To say this year has been a challenge for bond investors would be an understatement, but it also highlights that even though short- and intermediate-government bonds have declined this year, they've still been more resilient than stocks and have helped mitigate total portfolio losses. It's important to remember that while there is an inverse relationship between interest rate movements and bond prices, bond and stock markets have already priced in all expected future interest rate increases with all information available. And even though it's difficult to predict future interest rate movements, it's the unexpected rate increases that would drive bond prices down further. There is a silver lining to this seemingly dark cloud: as rates move higher, so will the yield and expected future return on your bond portfolio. Shorter-term bonds are well positioned to reinvest their proceeds at these higher rates as they reach maturity and are replenished with new bond purchases.

Performance has also been tough to stomach in global stock markets (see figures 2 and 3 below).

Figure 2

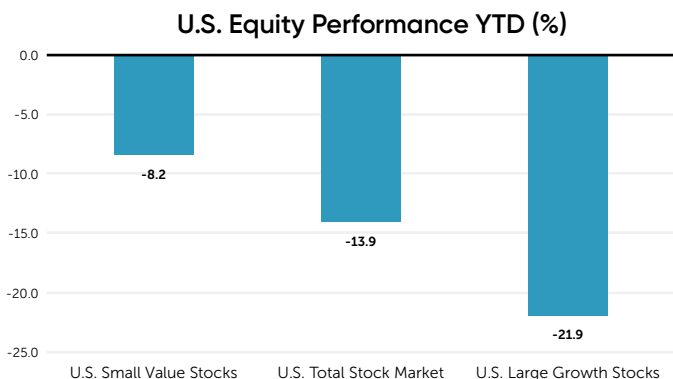
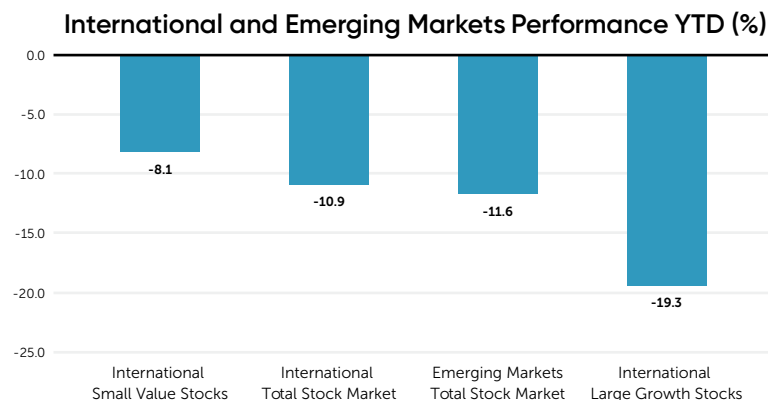


Figure 3



Like bond market performance, stocks were down—but some more than others. In the U.S., large-cap growth stocks were hit exceptionally hard. Eye-popping year-to-date losses from major technology companies like Netflix, Tesla, Facebook parent company Meta Platforms and others were significant drivers of this market segment’s performance and the stock market as a whole. Small-cap value stocks have fared quite well in comparison, outperforming the total market and large-cap growth stocks by 5.7% and 13.7%, respectively.*

Figure 3 highlights another interesting trend: home bias—the behavioral tendency to favor investments in your home country over international investments—has not been our friend this year. This might come as a surprise to most given what has happened globally this year, but international developed markets have outperformed U.S. markets by 3%.* Those who owned international small-cap value stocks also benefited from a similar relative outperformance trend that we saw in the U.S. Perhaps most surprising, emerging market stocks also outperformed their U.S. counterparts.

Now that we’ve recapped stock and bond market performance year-to-date, what does it say about sticking to your plan and your portfolio? First, it is a reminder that your portfolio and long-term financial plan were constructed to account for this type of market environment and many others. One aspect of this construction is diversification across geographies, asset classes and investing styles. We tend to remember times when diversification seemingly robbed us of the extra returns seen elsewhere in markets. But that’s not really the point of diversification; it’s there to keep us in our seats as markets fluctuate on the way to meeting our long-term goals. However, as we’ve seen so far this year, diversification can also make your portfolio look better than the markets overall.

The future remains uncertain, and we’ve seen that uncertainty manifest itself in global stock and bond markets this year through a slew of macroeconomic forces that are ultimately out of our control. We don’t know if and for how long these trends will continue. But we do know that harnessing the potential benefits of diversification will provide us with the best chances of long-term success.

*Source: rningstar. Data as of May 31, 2022. Stock and bond asset classes represented by the following indexes: U.S. Short Government Bonds (ICE BofAML 1-3Y US Trsy&Agcy TR), U.S. Intermediate Government Bonds (Bloomberg Barclays US Government Intermediate TR), U.S. Intermediate Investment Grade Bonds (Bloomberg Barclays US Aggregate Bond TR), U.S. Long Government Bonds (Bloomberg Barclays US Government Long TR), U.S. Small Value Stocks (Russell 2000 Value TR Index), U.S. Total Stock Market (Russell 3000 TR Index), U.S. Large Growth Stocks (Russell 1000 Growth TR Index), International Small Value Stocks (MSCI World Ex USA Small Value NR USD), International Total Stock Market (MSCI World Ex USA IMI NR USD), Emerging Markets Total Stock Market (MSCI EM IMI NR USD), and International Large Growth Stocks (MSCI World Ex USA Growth NR USD).

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Managing Your Digital Legacy

We are all familiar with the benefits estate planning can provide. By clearly defining how we want our loved ones taken care of after we pass, wills and trusts help ensure a safe and secure transfer of assets and avoid probate issues. Yet, an often-overlooked part of estate planning is defining how our heirs should manage our digital assets after we pass or become incapacitated.

Families must consider what happens to their loved one's email accounts, airline and hotel points, social media accounts and digital photos, among other digital assets. In most cases, they may discover a password book or file listing them, though the terms of service agreements for digital assets often restrict rights after death. Without proper authorization, this may become problematic in the estate administration process.

In more than 90% of states, the Revised Uniform Fiduciary Access to Digital Assets Act is the primary law that provides estate executors or attorneys access to someone's online accounts after death or incapacitation. In general, the act creates a tiered hierarchy to access digital assets. The first tier is **online tools**, which are applied first and given the highest priority. Examples are provided below, and they supersede all other instructions, including those provided in estate planning documents.



Apple iPhone/iCloud Users

iPhone users can designate a Legacy Contact on their device (requires iOS 15.2 or later) in Settings. Legacy Contacts can access the data stored on your iCloud account including photos, messages and backups.

More at:

<https://support.apple.com/en-us/HT212360>



Google Users

Google users can designate Trusted Users to manage their data and resources. Through the Inactive Account Manager tool, users identify when the inactive features initiate, who is notified and when everything gets deleted.

More at:

<https://myaccount.google.com/inactive>



Facebook Users

Facebook users can have their account deleted or changed to a Memorialized account once the account owner passes away. Identified Legacy Contacts can manage a Memorialized account to facilitate friends and family that want to share memories.

More at:

<https://www.facebook.com/help/103897939701143>

Legal documents would be considered next in the hierarchy. Estate documents, like a will or trust, should include specific language for a trustee, executor or other fiduciary to manage digital assets. If the online tools and legal documents do not outline the person's wishes, the final tier—the **provider's terms of service agreements**—would be considered. Since these terms are usually designed to protect current users, this option shouldn't be relied on because it gives heirs the least flexibility to manage—and possibly no access to—a user's digital assets.

Preparation is key to managing your digital legacy. Start by preparing a list of your digital assets. Once you have your list, you can determine which platforms have online tools to help with a smooth transfer. Many of these online tools notify the individuals you name as legacy users, but if not, be sure to let your heirs know your plans for your digital assets. This preparation helps ensure your heirs can properly execute your wishes and in a way that's convenient. They'll appreciate the preparation now and after you pass.

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