



Your Conservative Advisory Firm Since 1990

Second Quarter 2016

Living with Your Investments in Volatile Markets

Yo-yo markets that are up one day, down the next, continually promising gain or loss, are among the hardest to endure. To be able to stay committed to investing in volatile markets, it helps to step back and ask yourself why you are invested and for that matter, what exactly investing should mean.

Investing is very different than trading. Investing typically takes one of two forms. (1) We loan money to a business or entity with the expectation that the money will be repaid with a negotiated return or interest rate. (2) We purchase an interest in a business or property with the expectation that management will increase the value of the asset and generate income, providing a return on our investment. In both cases we are making a value judgment as to the likelihood of receiving a future return on our investment.

Trading seeks to take advantage of short-term inefficiencies in the market where return is based on changes in the purchase price of the security, whether bond or equity.

The volatility of prices in the market for debt or equity typically does not change whether or not our decision in purchasing an investment was a good one. A bond purchased from a company with the financial wherewithal to meet its obligations is not a better or worse investment if its price fluctuates in response to market volatility. A company with sound financials and good growth prospects, whose stock was purchased at a good value does not become a bad investment because the market enters a downtrend. The reason is all in the word - future. If you believe the company continues to offer future potential, that the economy will grow over time, that demand will continue for the products and services the company offers, then the investment remains a valid one.

This is why buy and hold is a viable investment approach for younger investors with time to weather market volatility. One invests in good companies, whether through stocks or bonds, monitors the companies to make certain their financial and growth prospects remain good, and sells when the reasons for initially investing no longer hold true.

The problem with a buy-and-hold approach occurs if the investor needs to sell his/her investments in the near future to meet anticipated financial needs, whether financing an education, starting a business, retiring, or taking advantage of an opportunity that may not come along in another year or so. The luxury of time to wait for a market recovery disappears and it becomes more important to protect the present value of the portfolio.

This is where active management plays an important role. Active management says we don't know how low the low might be. But we do know that our investor has limited ability to make up losses. We chose to limit the downside of the portfolio by moving out of the market or into lower risk positions when downside volatility increases. When the market appears to have established an uptrend, assets are moved back into desirable investments to take advantage of opportunities to build wealth through appreciation.

In yo-yo markets, active management can suffer whipsaws, short-term movements in the market that result in selling a position only to have to buy back at a higher cost. But given our inability to

see the future and the need to limit losses, this is typically considered the lesser risk.

Approaching active management purely as a trading strategy is a very different investment style. The goal in this case is not to invest in good companies or bond issuers based on their future performance, but to take advantage of inefficiencies and irrational market moves to achieve profits. Maintaining a long-term commitment to a trading strategy requires knowing how the strategy works in different markets and analyzing the current market to ensure that the approach is working as it has in the past. If it isn't working, the investor needs to move out of the market to rethink or wait until the right environment for the success of the model is in place.

It's hardest to stay with your investing approach over the long term when you haven't really thought about why you have selected the investments you hold. Or, why your advisor has selected specific investments and what the criteria are for holding or selling. When you understand why - given it makes sense to you - it's much easier to invest through volatile markets and still sleep at night. Which is why we encourage clients to contact us with their questions. We want to make certain they understand the reasons behind our investment approach. Investing succeeds best as a long-term approach to the market.

Debts Can Live On After You

Toward the end, my grandfather paid for everything with a credit card, explaining that if he died, it would be like getting everything free. While great in theory, it only works that way if you die broke or else are very careful how your debts are structured. Dying doesn't always mean the end of your debts. After your death, your estate is expected to settle your debts before assets go to your heirs. Creditors always come first.

If someone has co-signed or acted as a guarantor on one of your loans, they are responsible for the balance after you die. Spouses are also responsible for paying off your debts on joint accounts, regardless of whether they had anything to do with the account. If your spouse is just an authorized user, they will not be required to pay your credit card debts provided you do not live in a "community property" state.

In states which have community property laws, any debts or assets that you've obtained after marrying are also the responsibility of your spouse, regardless of whether he or she is on the loan. Ten states have community property laws: Arizona, **California**, Idaho Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin. In Alaska, residents have the option to make their property considered community property.

Mortgages typically come due on death, unless the surviving spouse can prove financial ability and creditworthiness to take over the loan.

Death can retire federal student loans. It's about the only thing that can. But private student loans made through a bank are typically a claim against your estate.

Is there a way to assure that your heirs receive something from your estate? In most cases, life insurance policies, IRAs, 401(k)s and other tax deferred retirement accounts, along with brokerage accounts are protected from creditors as long as you correctly establish your beneficiaries. If you do not have legal beneficiaries established on your accounts, the balance goes into your estate and is subject to creditor claims.

Can you just give away your assets prior to dying to avoid the claims of creditors? Not necessarily. While you are entitled to give away up to \$14,000 per person without incurring federal gift taxes, if you do this shortly before you die, your creditors could sue the people you gave/or sold assets to at under market value claiming a "fraudulent transfer."

Given you can't take it with you, it makes sense to sit down and figure out how your heirs can take it with them in the event you die. And, it is particularly important to make certain spouses are not burdened with debt they may not be able to afford.

Sincerely,



Brian R. Carruthers, CFP®, CMT

Brian R. Carruthers & Associates
Your Conservative Advisory Firm Since 1990
301 Forest Avenue
Laguna Beach, California 92651-2115 USA
Telephone: 1-949-464-1900
www.gobcafunds.com
brian@gobcafunds.com

Brian Carruthers & Associates, 301 Forest Avenue, Laguna Beach, CA 92651

[SafeUnsubscribe™ {recipient's email}](#)

[Forward this email](#) | [Update Profile](#) | [About our service provider](#)

Sent by brian@gobcafunds.com in collaboration with



Try it free today