Taxes & Investments Series

Capitalize on Market Volatility

With the ever-changing landscape of taxes, it is growing increasingly difficult to understand how legislation affects clients and could possibly impact their financial future. As a leader in the financial services industry for the past 30 years, we get it. That's why HD Vest Financial Services® is constantly seeking ways to share the latest knowledge we acquire with you. We've created the Taxes & Investments: Timely and Timeless Strategies Series to share timely information and provide our Advisors and their clients with practical information and ideas they can build on.

Volatile markets can be concerning to both novice and experienced investors. It is easy to let rocky times make you question your investment choices and it may be tempting to pull out of the market altogether to move your assets to the potentially less volatile, and least growing investment in cash. It is important to remember that accepting volatility is a normal part of investing in the market. Since 1927 the S&P 500 has averaged a correction of at least 5% every 71 trading days, or about once every 3.5 months.[1] The question becomes how can you take advantage of volatile markets to potentially improve your overall financial situation? There are several things we can do:

1. **Dollar-cost average into the market-** Dollar-cost averaging allows you to purchase securities while they are on sale and can be a very powerful tool for investors. It is simply investing the same dollar amount into the market at a specified time interval. For example, $100 per month in investment XYZ for 10 months. By using the dollar-cost averaging strategy, an investor can take advantage of market volatility to increase the number of shares they purchase.[2]

2. **Diversify-** An important step you can take to help manage the risk of volatile markets is to diversify. Diversification spreads your risk across many asset classes and could potentially limit losses in a down market. The theory is that under-performance in one asset class may be offset by over-performance in a different asset class.

3. **Roth conversion-** Volatile markets provide a great opportunity to convert dollars from your Traditional IRA to a Roth IRA. A Roth conversion is a strategy that allows you to take a taxable distribution from your Traditional IRA and move those dollars into your Roth IRA. By doing a Roth conversion in a volatile market you can potentially move and pay tax on assets that are temporarily lower in value in order to allow them to grow back in an account that allows for tax-free distributions.[3]

4. **Recharacterize a prior year Roth Conversion-** If tax deadlines allow, recharacterizing a prior year Roth Conversion may make sense. Recharacterizing essentially undoes a Roth conversion. By recharacterizing you can avoid paying tax on a Roth conversion that was exercised at a higher market value.

5. **Tax loss harvesting-** Consider selling securities at a loss to offset any capital gains in your in non-qualified accounts. This can reduce your taxable income at year end.

6. **Rebalance your current portfolio-** If you are comfortable with your current asset allocation a volatile market can be a good time to rebalance your portfolio. Rebalancing involves buying or selling assets in your portfolio to maintain your original desired level of asset allocation.

An appropriate investment in a temporary downturn of the market isn't a cause for concern. Instead, volatile markets provide a time to make some advantageous decisions. Talk with your trusted HD Vest Advisor to discuss your individual situation and how you can best take advantage of market volatility.

If you are not currently an HD Vest Advisor but are interested in learning more about partnering with us to offer financial services, contact a Business Development consultant at (800) 742-7950.

Sources:

- Sterne Agee and Bloomberg- http://investing.covestor.com/2014/08/often-investors-expect-5-market-corrections
- IRS Publication 590

1. Standard & Poor's is a corporation that rates stocks and corporate and municipal bonds according to risk profiles. The S&P 500 is an index of 500 major, large-cap U.S. corporations. You cannot invest directly in an index.

2. Dollar-cost averaging does not assure a profit and does not protect against loss in declining markets. Such a plan involves continuous investment in securities regardless of the fluctuation of price levels of such securities. An investor should consider his or her financial ability to continue his or her purchases through periods of low price levels.

3. Retirement plan withdrawals may be subject to taxation and penalties when withdrawn early. IRAs typically involve fees, expenses, and services that should be compared when considering any type of conversion or rollover.

Investments & Insurance Products:

- Are not insured by the FDIC or any federal government agency
- Are not deposits of or guaranteed by the bank or any bank affiliate
- May lose Value