TIME IN THE MARKET, NOT MARKET TIMING

DELIVERS RESULTS

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WHITE PAPERS

WEALTHMANAGEMENT

"What should I do now?"

We get asked this question all the time, especially when volatility rears its ugly head.

Short-term volatility can prompt some investors to attempt to time the market by lowering their equity allocations and shifting their portfolios over to cash or fixed income

This year's periods of high market volatility are causing clients to ask another question: "How should I act in this environment?" Many investors wonder whether they should ask their portfolio advisors to lower their equity allocations and emphasize either cash or fixed income in their portfolios. This reduction of risk in the throes of a market adjustment can be tempting, but short-term volatility should remind us of the benefits of thinking long-term by creating and following a strategic allocation and resisting the temptation to enter and exit the market according to the ups and downs of its volatility.

This is why clients work with us. Smart investors realize they need seasoned, experienced advisors with cold water in their veins and a steady hand on the panic button. As Warren Buffet said, "You only know who is swimming naked when the tide goes out."

TIMING CONTINUED ON P2

TIMING CONTINUED

Our team has seen this before – troubling times make us smile. Smile during bad times, you say? Sure. Because we have a strategy, and we do not get rattled.

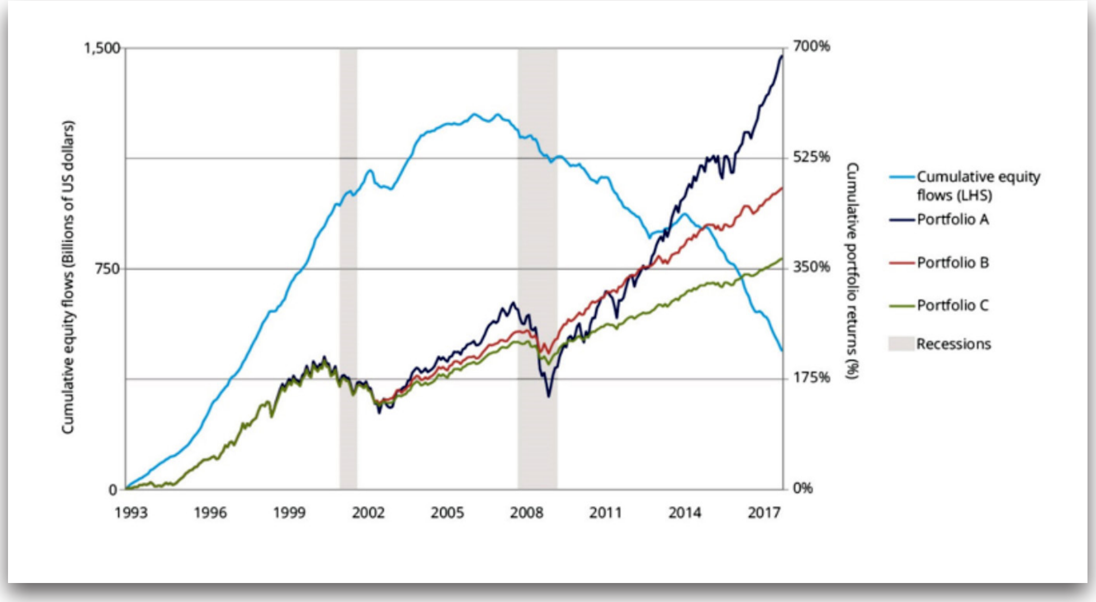
Three very different portfolio strategies are illustrated on the following graph, where the three very different portfolio management approaches are overlaid with mutual fund flows (blue line) from 1993 to 2017 as a catalyst for investor behavior.

Figure 1 shows the hypothetical results of these different approaches:

Portfolio A: 70% equities and 30% fixed income, steady over the entire period.

Portfolio B: Equity allocation reduction and an increase in fixed income/bonds in equity outflow periods, and vice versa during equity inflow periods.

Portfolio C: Pursuing Portfolio B's tactical rebalancing strategy, but this time adding or taking away cash in lieu of fixed income/bonds.



Hypothetical portfolio returns (gross), February 1, 1993 – December 31, 2017.
Cumulative equity flow data courtesy of Trim Tabs.

(Note: Outflows and inflows are mutual fund buys and sells. When investors are flowing money into funds they are buying, outflows mean they are selling.)

Here is the methodology for these approaches:

Portfolio A: Static 70% equities, 30% fixed income – no changes in strategy or allocations.

Portfolio B: Start with a portfolio comprising 70% equities and 30% fixed income, and:

- Following a 1-month period of equity outflows, lower equity allocation in increments of 10%, and raise fixed-income allocation in increments of 10% to 20% in equities and 80% in fixed income/bonds.

TIMING CONTINUED ON P3

TIMING CONTINUED

- Following a 3-month period of equity inflows, raise equity allocation in increments of 10%, and lower fixed-income allocation in increments of 10% until 70% in equities and 30% in fixed income/bonds is reached.

Portfolio C: Start with a portfolio comprising 70% equities and 30% fixed income, and adjust it according to what was done with Portfolio B, but this time with reallocation in and out of cash instead of fixed income/ bonds.

Important Note: *In this illustration, we waited longer to increase the equity allocation during inflows than to decrease the equity allocation during outflows, because we believe that investors tend to be more reactive to outflows than inflows (fear vs. greed).*

Over the period in question, equity allocation reduction could bolster short-term performance. Yet in the long term, if investors attempted to time the market through the sales of their equities and the conversion of their portfolios to cash or fixed income, their portfolio performances would fall well short of 70% / 30%. In this illustration, over the complete 24 years, Portfolio A surpassed Portfolio B by 210% and outdid Portfolio C by 321%.

Note: Before the 2008 recession, equity flows negated, subsequently reducing equity allocations in Portfolios B and C, helping them to outshine Portfolio A for a brief period. Portfolio B eclipsed Portfolio C, because fixed income made greater returns than cash, benefiting from consistent capital gains as interest rates went down (Remember: As rates fall, bond prices rise, and vice versa).

CONCLUSIONS

The "net, net," as they say, is: Stick with your personalized plan, and be disciplined and not "moved to act" based on fear, greed or emotion. A steady hand is best served when investing, and this is why investors work with advisors.

As your investment advisor, we help you understand your risk tolerance. Getting clients to understand the potential drawdown scenarios and being OK with it allows you to understand the potential impact of a correction and if you are prepared to weather the storm. Can you live with a 5, 10, or even 15% drawdown and not have it disrupt your life?

At WT Wealth Management we have software that can show you potential drawdown events on your portfolio. Illustrating real life events via our stress testing software lets you see actual numbers in order to insure we are delivering risks within your comfort level.

We can stress test and show events like:

- If a 2013-like bull market were to happen again...
- If a 2008-like bear market were to happen again...
- If a financial crisis were to happen again...
- If a 1.34% interest rate spike were to happen again...

We are not saying 2008-2009 was fun, or that there weren't things that we could do to make returns – or, in this case, losses – more palatable. But keep in mind... If you find yourself in a riptide of a market sell-off, it's probably already too late to react and make a decision. The best approach is to have a plan, know the consequences, and then just ride out the storm.

WT Wealth Management is a Scottsdale-based Registered Investment Advisor with over $100 million in client assets under management. We strive to help investors of all shapes and sizes reach their individualized goals.

SOURCES

Jacobson, Nanette Abuhof. "Market Time, Not Market Timing, Has Led to Better Results." *Hartford Funds, March 2018.*

DISCLOSURE

WT Wealth Management is an SEC registered investment adviser, with in excess of $100 million in assets under management (AUM) with offices in Flagstaff, Scottsdale and Sedona, AZ along with Jackson, WY and Las Vegas, NV.

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