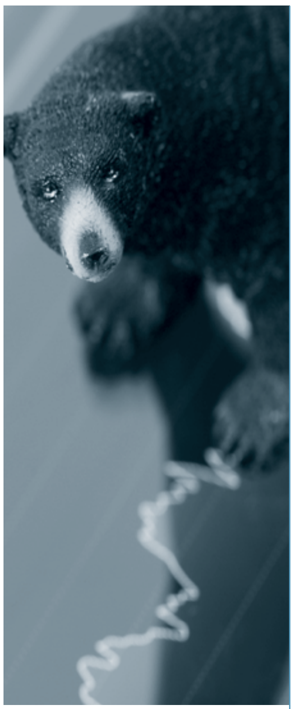
Three Ways to Build Wealth in a Down Market



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Over the past few months, every time I turn on the TV it seems the stock market is in the red for the day. A lot has been written about how to tread water in "volatile" market conditions, including what trade orders to use, which charts to read and what stocks to buy, but none of it tells me how to continue to build wealth in such an environment. As a "Wealth Advisor" at HBKS® Wealth Advisors, it is important that I continue to provide value to my clients during times when their investment portfolio isn't generating a positive return. Here are a few of those ideas:

PAY DOWN DEBT

Aside from mortgage interest rates — which for the last decade have been the lowest in history — student loans, credit cards and car interest rates can have a major impact on your monthly cash flow and affect your wealth building strategies. When markets are heading south and you get nervous that your latest 401(k) or IRA contribution will suffer a loss almost as it clears the trading desk, you might use that money instead to pay down debt.

According to *credible.com*, the average student loan rate (as of 10/24/2018) was:

- 4.81 percent for undergraduates
- 6.38 percent for graduate students
- 7.44 percent% for graduate student PLUS loans

If you redirect your money from your usual investment vehicle — IRA, 401k, CD, stock account — to making an extra payment on your loans, that extra payment could be comparable to earning 4.81 percent to 7.44 percent on your money. By reducing your overall loan balance, you are increasing your net worth.

The S&P 500 has provided a double-digit return in seven of the past 10 years so it is tempting to continue pumping money into your investment portfolio. However, diversifying your savings to include guaranteed returns via debt payment is a great way to boost your overall rate of return during a down period in the stock market.

REDUCE TAX LIABILITY

Reducing your tax obligation is another way to increase your net return during times of market uncertainty. Aside from certain deductions or filing strategies that your CPA might recommend — such as itemizing vs. taking the standard deduction — there are some simple steps to take to reduce investment income taxes and other ways to shelter income via investment accounts.

As advisors, we are constantly looking for ways to add value for our clients. Aside from creating a well balanced, globally allocated portfolio, we work to put more money in our clients' pockets and increase their overall net worth and individual wealth with a variety of tax-saving strategies, including:

Tax Loss Harvesting. If an investment is valued at less than what you paid for it, you can sell it to realize the loss, which will in turn reduce your tax liability in that year and possibly future years as well. The strategy to buy it back and or replace it with another investment depends on your situation and portfolio structure.

Avoid Capital Gain Distributions. Most portfolios contain mutual funds. Many funds produce a substantial capital gain distribution even though fund shares are not actually sold. In certain situations, it makes sense to sell the investment to avoid the capital gain distribution then buy it back later.

Asset Location. Bonds and other income producing assets issue coupons, dividends or interest payments throughout the year, which are taxable. However, if you own those types of investments in a tax-sheltered retirement account — a traditional IRA, Roth IRA, SEP IRA, etc. — the tax will be deferred until you take distributions from those accounts, typically in retirement. Strategic placement of certain assets can save you a considerable amount in taxes each year and be an effective way to keep more of what you earn.

Tax-Exempt Income. Fixed income investments, such as bonds, are commonly included in a balanced portfolio as a way to provide stability and consistent returns over time. If the bonds aren't located in a retirement account — IRA, 401k — then the interest payment is taxed at an ordinary income rate, which could be as high as 37 percent depending on your tax bracket. However, certain types of bonds, such as municipal bonds, are not taxed, allowing us to create a tax-exempt bond strategy when justified by your portfolio.

Income Sheltering. Based on your business, your income could vary significantly year to year. A big bonus, substantial commissions or a big contract could bump you into a higher tax bracket and cause a significant increase in the tax you owe. By moving money into certain retirement accounts — SEP IRA, Solo 401k, Traditional IRA — you can reduce your taxable income to the point where you are in a lower bracket.

DOLLAR COST AVERAGE

Another way to protect yourself from a down market is to dollar-cost-average your investments. Instead of making a one-time buy into a portfolio, spread your buys out over a determined period of time. This strategy will prevent you from buying investments at their highest value or most expensive.

Consider the purchase of $10,000 worth of an S&P 500 ETF. Instead of buying it all at once, you invest $2,500 each month for four months. In a down market you be spreading your buy over a period where the cost of shares is declining, thus reducing your overall cost basis or amount paid.

This is a useful approach in up markets as well as down because even the most seasoned advisor is unable to predict the highs and lows. When the market isn't producing double-digit returns, strategies like this help to maximize your returns.

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Ian Wild is a Financial Advisor in the Pittsburgh office of HBKS® Wealth Advisors. Among his clients he counts several fellow professional football players and focuses much of his advisory business on players and others he has met through football. Upon earning an accounting degree from Mercyhurst University in 2012, Mr. Wild signed with the Buffalo Bills, then played with Winnipeg in 2013 and 2014, setting a franchise record with 14 tackles against the Montreal Alouettes on August 22, 2014. In 2015, he signed with the Pittsburgh Steelers. Mr. Wild continues his dual career as a linebacker with the Winnipeg Blue Bombers and an HBKS® financial advisor.