MAI
Capital Management

COVID-19 Update:
Riding out the pandemic? Here are four things you should be doing right now

Investors witnessed an unprecedented event unfold in March, as the U.S. markets bottomed out amid a nationwide lockdown. Between March 4 and March 11, the S&P 500 dropped by 12%, descending into a bear market. Since then, confidence among investors has been partially restored, but fear of a second wave of COVID-19 is still contributing to ongoing turbulence.

At the start of the pandemic, some investors looked to their advisors to take action as the markets plunged and they saw their hard-earned savings impacted. Currently, some may be looking to their advisors once again to make changes as light has emerged at the end of the tunnel due to progress in the battle against COVID-19. But sticking to a long-term strategy is now more important than ever. The following four tips are intended to help investors evaluate their current plans and rise out of this pandemic better positioned to deal with whatever the future may hold.

1. Meet regularly with your financial advisor.
Although this may seem obvious, one of the most important steps to take as an investor is to maintain communication with your advisor. In a world of constant change, it's natural for our individual needs, objectives and preferences to change over time as well. Astute advisors can provide education, share ideas and recommend changes for your benefit. Discussing items such as the current state of your financial affairs, your desired future state and your comfort level going forward can help ensure you are maximizing all available options and well-positioned on a path toward long-term financial health.

2. Review your financial plan.
Some say the best defense is achieved by having an effective offense. Similarly, your financial plan is the roadmap designed to help guide you through the uncertainty (aka risk) that lies ahead. Many investors tend to exhibit a larger appetite for risk assets during the later stages of a bull market, when prices may actually be high. Then when the markets fall, they're often inclined to reduce exposure. This type of buy-high, sell-low behavior can be highly unproductive and lead to unwelcome consequences.

At MAI, we work with clients to create a healthy balance and avoid being forced into knee-jerk reactions when times get tough. For example, cash-flow matching is one effective strategy we could incorporate into a plan for clients who need to fund a series of future cash needs. Once a budget is prepared and a client's annual income need is understood, this approach entails segregating a portion of their savings into lower-risk investments focused on principal preservation, which will provide them with cash flow for several years to come. The remainder of their portfolio can then be positioned for longer-term growth objectives.

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3. Maintain your investment portfolio.

At MAI, we try to communicate with our clients in a variety of ways to help them stay informed as investors, with proper preparedness and expectations. This includes initiating opportunistic as well as more regularly scheduled activities, such as tax harvesting and rebalancing. During market corrections, especially those coupled with economic uncertainty, it can appear counterintuitive to rebalance (sell assets that have held up the most and buy assets that have suffered the most). Behind the scenes, however, rebalancing essentially harvests value from volatility by taking advantage of mean reversion, and can reduce portfolio volatility over time.

4. Stay disciplined.

As a long-term investor, your plan is likely already well in action. You've also likely heard your advisor say this repeatedly, but actions are now more important than ever. Staying disciplined and employing a goals-based approach can often prevent the need to course-correct during distressing times. You and your advisor have developed and implemented your particular plan for a reason, so trusting that plan and its ability to deliver on your long-term goals is key right now. It's also prudent to continue improving the overall effectiveness of that plan. For instance, the recently enacted Coronavirus Aid, Relief, and Economic Security (CARES) Act eliminated required minimum distributions (RMDs) for 2020. Some investors might take advantage of this relief to reduce their current income tax or diversify their taxable estate by converting to a Roth IRA.

Overall, the impact of the pandemic may continue to be a source of stress for investors, but it could also represent the perfect time to take a step back and reset. The tips above, particularly connecting regularly with your advisor and focusing on a goals-based strategy, should help guide you through these volatile times.

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