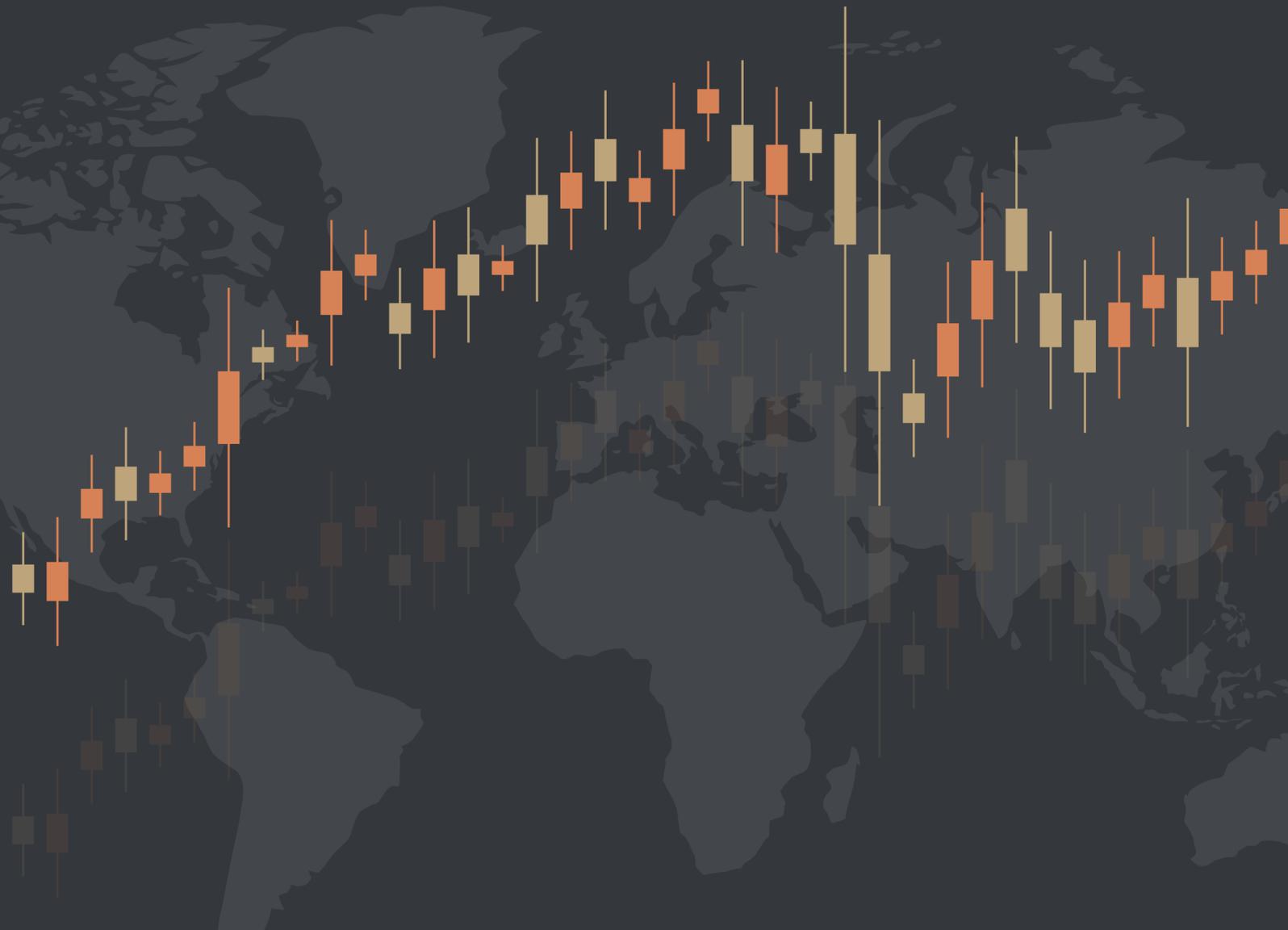




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Best Practices for Surviving Market Volatility



Volatility in the financial markets can cause even the most experienced investors a great deal of stress and anxiety. While everyone's temperament and investment experience is different during times of financial stress, this guide covers a few best practices you can use.

Rebalance

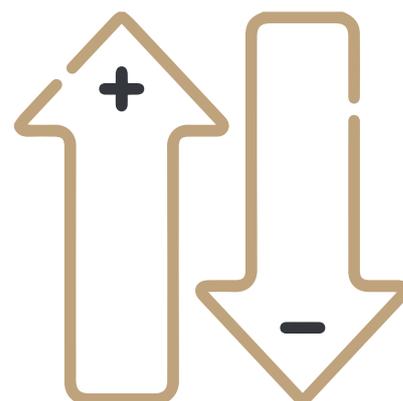
The decision of what types of investments to include in your portfolio (and in what portions) is responsible for over 90% of all investment returns.

Riskier investors may prefer 80-100% of their accounts be invested in stocks. More conservative investors may prefer closer to 40%, with the remaining 60% spread between bonds and other types of investments.

Whatever your intended asset allocation, it's important to rebalance back to your targets during volatile times.

As stock and bond prices fluctuate, it's not unlikely that the asset allocation across your accounts deviates from your intended proportions. If stock prices fall and bond prices remain steady, the portion of your accounts in bonds will likely rise above your target. In which case, rebalancing would entail selling bonds and using the cash to buy stocks.

Rebalancing returns your allocation to your intended targets. Allowing your portfolio to stray away from these targets could mean your portfolio winds up with more or less risk than you'd planned for.





Dollar Cost Averaging

One effective way to spread market risk over time is to dollar cost average. Rather than investing a lump sum of money all at once, investing in monthly or quarterly increments lets you “leg into” the market over time.

For example, let’s say you suddenly come into \$100,000 that you want to invest. But the markets have been on a downtrend recently, and you’re reluctant to put the money to work all at once.



Dollar cost averaging over a 12-month period would mean investing $\$100,000 / 12 = \$8,333$ monthly. While you wouldn’t capture the same amount of return if the market appreciates, you also don’t have as much at risk if the market crashes immediately following your first investment.

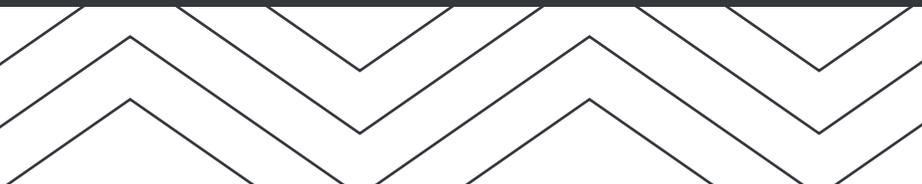
Harvest Losses

Volatile times in the stock market can yield helpful opportunities if you know where to look. For example, a drop in the value of your portfolio may leave you with unrealized capital losses in taxable investment accounts.

Let's say you purchased 100 shares of GE stock about a year ago. You paid \$110 per share for the stock, for a total cost basis of \$11,000. The shares fell in value and are now worth \$75 each. You haven't sold any of the shares yet, leaving you with an "unrealized" loss of $\$110 - \$75 = \$35$.



If you decided to sell the shares for \$75 each, you'd be "realizing" a capital loss of $\$35 * 100 = \$3,500$. This realized loss could be used to offset future capital gains later in the year. If you don't have other gains to offset you'd get to use up to \$3,000 to offset your taxable income. The remaining \$500 in capital losses would be carried forward to next year – to be used against gains or your income.



Don't Forget History

It's easy to forget that bear markets are a natural part of the economic cycle – especially when emotions are running high.

Investing in stocks and bonds is a risky endeavor, which is precisely why we're rewarded with above average returns over long periods of time.

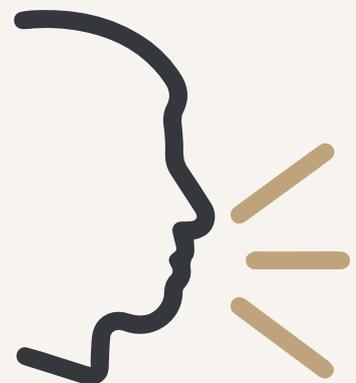
Every single time we've faced a calamity in the financial markets there's been a subsequent recovery. With proper planning and ample diversification in your portfolio, there's no reason that your portfolio can't recover as well.



Talk to Your Professional

One of the ways a financial professional can add value is to keep you grounded in times of stress and duress. A good professional should help you explore your financial objectives and comfort level with risk – both of which tend to change very infrequently.

During times of high market volatility it's important to return to this long term foundation to help guide your decision making in the moment. Seeing the "forest from the trees" in these situations can be challenging. Speaking with a financial professional you have a relationship with can help keep you on track and provided helpful objectivity.



Maintain A Long Term Focus

Remember that the capital markets are based on human behavior. When more investors want to sell a certain security than buy, the price goes down.

It doesn't matter why an investor might want to sell or whether they're making a rational decision. And since human beings are inherently irrational creatures, there is simply no way to predict which direction a market might head in the short term.



But over longer periods of time, say 10-15 years or more, these short term irrationalities tend to blend together and dissipate. Remaining invested over the long run and maintaining this long term focus will enable you capture market returns over time.

While we have no clue what might happen over the next six months or few years, remaining invested consistently and globally diversified is the only way to let the market do the work for you.

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