Adam C. Harding, CFP®
Investments | Financial Planning

The Quarterly

Edition 1, April 2016

Welcome

First and foremost, thank you for taking time out of your day to read this inaugural version of our quarterly newsletter. This means that you're most likely a friend or family member, one the firm's very first clients, or perhaps you're exploring working with us in the future. In any case, your support and interest is the most incredible compliment and I couldn't be more grateful for it.

Our firm, Adam C. Harding, CFP®, is committed to providing a sophisticated and modern approach to financial planning and investing. As part of that commitment, we aim to provide continuing education and insights to our network. This publication is one of many that can be expected.

I hope you find these pieces interesting and I appreciate your feedback or suggestions.

-Adam C. Harding, CFP®, Principal

In This Issue

Quotable:

"Do you know what investing for the long run but listening to market news every day is like? It's like a man walking up a big hill with a yo-yo and keeping his eyes fixed on the yo-yo instead of the hill."

-Alan Abelson,

Barrons Columnist and Editor

Volatility

The first three months of 2016 have seen enhanced volatility in equities markets, with sentiment continuing to shift based on gyrations in oil prices and fears of recession. As a result of headline news, volatility is often misunderstood as a purely negative byproduct of investing. In fact, the statistical measure of volatility (standard deviation[1]) includes both upside and downside fluctuations around the average return for a given time frame.

The first quarter of the year is a great example of this; the US stock market (as represented by the S&P 500 Index) opened the year at 2012.66 then retracted 183.58 points to arrive at a February 11 closing price of 1829.08; a 9.12% decline in less than 6 weeks[2]. Just as quickly as the market turned downward, sentiment shifted and markets came roaring back up to positive YTD returns for the year (as of the 3/14/16 writing of this article). As we know, prices don't move in a straight line; these fluctuations are volatility and what matters is the end result.

Volatility is often synonymous with risk, but the real risk of loss is not *volatility*…Well, at least not entirely. The risk is that a sale is made during a period of downside volatility when, in many cases, buying might be the better option. In any case, volatility should be expected and be part of your investment plan and asset allocation. My *USA Today* article on pages 2 and 3 cover strategies for dealing with volatility in greater depth.

1: $\sigma = \sqrt{\sum_{i=1}^{n} (x_i - \mu)^2}$
2: Source: Google Finance

In the News

We think it's important to continually reinforce our position as an expert in financial planning and investment advice. As part of that effort, we will occasionally write material on relevant topics, trends, or general principles we feel are insightful to investors with varying degrees of experience. These pieces will always be distributed our clients and associates, but also may receive attention from local and national news sources.

Most recently, on January 9th, 2016 Adam's article was published in the USA Today: Money section. Included is this article (right).

Also available online at http://www.usatoday.com/story/money/personalfinance/2016/01/09/3-smart-strategies-make-most-market-volatility/78435586/

USA TODAY
A GANNETT COMPANY

3 Smart Strategies to Make the Most of Market Volatility

By Adam C. Harding, CFP®. Article has appeared at NASDAQ.com, Nerdwallet, and USA Today.

Amid today's increased market volatility, economic uncertainty and geopolitical unrest, it is wise to know how to react when your investment plan seems to be faltering.

On the road to your ultimate investing goals, one or more elements of your portfolio may decline in value. But there are a few ways to turn these unfavorable price movements to your advantage by embracing the environment and following disciplined processes.

Here are three smart strategies that can help you make the most of market volatility.

1. Tax-loss harvesting

This strategy is for investments held within taxable accounts, rather than tax-advantaged retirement accounts such as an IRA or 401(k). Here's how it works:

Let's say you bought 100 shares of fund XYZ at $50 per share for a total investment of $5,000. Then, for whatever reason, the price of XYZ falls by 30% to $35 per share. Your total investment has shrunk to $3,500. At this point, it can be easy to panic and sell — and difficult to simply wait it out.

But a third approach also exists: tax-loss harvesting. You sell shares to lock in the loss, which you can then use to offset gains on other investments, reducing your capital gains taxes. You can then buy back the investment (or a similar investment), as long as you satisfy the Internal Revenue Service's wash-sale rules. After all, as a disciplined long-term investor, if you liked the fund at $50, you should probably love it at $35, all else being equal.

In real life, investments are usually part of a portfolio, with some elements rising and others falling at any point in time. The aim is to eventually sell investments to pay for something you want (the purchase of a home, for example, or a comfortable retirement lifestyle). When you sell appreciated assets, though, you can face a sizable tax bill. If you're unable to offset some of those gains, your goals may become substantially more expensive.

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2. Roth IRA conversions

Traditional retirement accounts are great because they allow you to avoid paying taxes on contributions and investment earnings today; instead, you pay taxes on withdrawals from the account at some point in the future. The idea is that you can put in more money if your contributions aren't subject to income taxes, and your investments can grow more freely than they would if they were held in an account where dividends and capital gains would be taxable as you earned or recognized them.

On the other hand, contributions to Roth IRAs are always made with after-tax funds, but withdrawals are tax-fee. Because of the contribution rules for Roth IRAs, however, it can be hard to build a significant asset base in this type of account. One powerful way to do so is to convert assets from your existing tax-deferred IRA to a Roth IRA.

When you convert assets from a traditional IRA to a Roth, income taxes will be due on the converted amount. So assets that have declined significantly in value are ripe for Roth conversion: You'll pay less in taxes because of the current depressed value, then you'll have the potential for future tax-free growth within the Roth IRA structure.

To make any Roth conversion strategy viable, the converted assets would need to perform well enough after the conversion to offset the impact of the taxes paid. If you feel that the assets are simply in a correction, and you still like the outlook for them, then this strategy becomes more attractive.

3. Rebalancing

A simple, disciplined approach to portfolio rebalancing can be another very useful tool when the investing environment becomes volatile. Consider the following.

Assume you have 10% of your portfolio allocated to the stock of a certain company. Let's say it's a teddy bear manufacturer, and your investment thesis is that people could use more hugs and that teddy bears are a prime investment to take advantage of this market need.

As expected, you're an investing genius, and this stock takes off. Because of the increase in its value, the stock grows to 15% of the overall value of your portfolio. In this case, a rebalancing approach would suggest that you sell a portion of the stock, capturing some of the gain, to trim your position back to the 10% target.

Conversely, if the stock fell in price so that it made up just 5% of the total portfolio, the same rebalancing discipline would have you buying this stock at the depressed price so that your allocation gets back near the 10% target. You'd be taking advantage of lower prices in search of long-term growth.

This strategy makes sense to most investors, but "selling winners" and "buying losers" can be hard to implement objectively. Your asset allocation may contain some components that zig while the others zag, and perhaps some that simply stay put when zigging and zagging inevitably occurs. What this means is that positions in your portfolio can, and should, be graded by what purpose they are serving to the overall portfolio strategy and not just their individual performance.

If an asset or asset class in your portfolio is underperforming, ask yourself why that may be. It could be serving a purpose.

Embracing declines

Nobody wants to see their investments decline in value, but declines are normal. The real challenge is: How will you react when those declines occur? The natural instinct is often to react emotionally, but by having a plan in place — and knowing how to deal with these events — you can make the most of unfavorable market activity.

Adam's note:

Taxes are the single greatest expense most individuals incur over the course of their lives. This is why 2 out of the 3 methods listed in this article are geared towards enhancing after-tax returns.

The third method, rebalancing, generally addresses the harder-to-quantify effect of human behavior and lack of discipline on investment performance.

There is no one-size-fits-all approach to investment advice, be sure to discuss these matters with your professional advisers before making any changes For informational purposes only.

Our Office is located within the Executive Hub suites at the Scottsdale Waterfront

Visit Us Online or In-Person

You can learn more about the firm, receive timely updates, access your client portal, or schedule a meeting directly on our website at:

www.adamclarkharding.com

We also love visitors at our office. We are located within the Executive Hub at:

7135 E. Camelback Rd. #230
Scottsdale, AZ 85257

Located above Wildfish restaurant at the Scottsdale Waterfront.

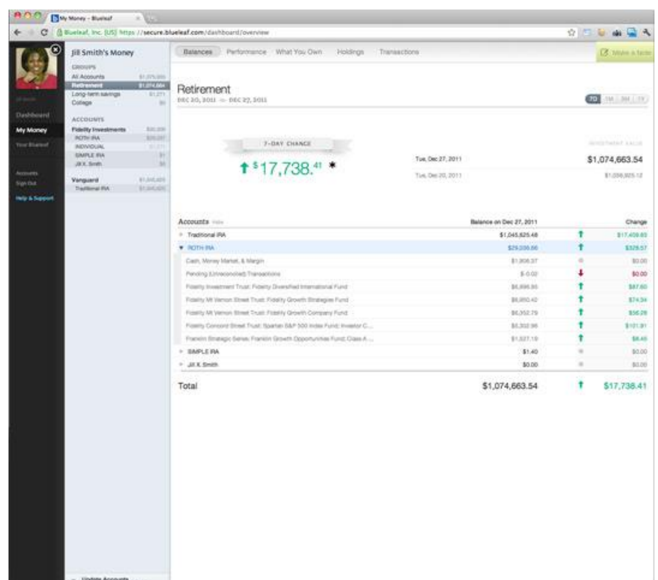
Leveraging Technology

Our firm is very forward-thinking when it comes to using technology to enhance the services we offer in order to create value for our clients. As part of that effort, the most recent tool we've introduced is a partnership with Blueleaf.

Blueleaf is a cutting-edge platform that provides clients with a secure portal to view their investments and performance, safely store documents, and even link in accounts outside of Adam C. Harding, CFP®'s management, like an employer's 401(k), for example. Our goal is to provide the most comprehensive guidance and insight possible and we are excited about what this offering means for our ability to achieve that goal.

Access to this platform is also available for individuals who are not clients of the firm, but may be interested to see their total financial picture in one place.

To get started, email adam@adamclarkharding.com. You will receive login instructions shortly thereafter.



Preview above is not an actual client or actual performance. Informational purposes only. Source: Blueleaf.com

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