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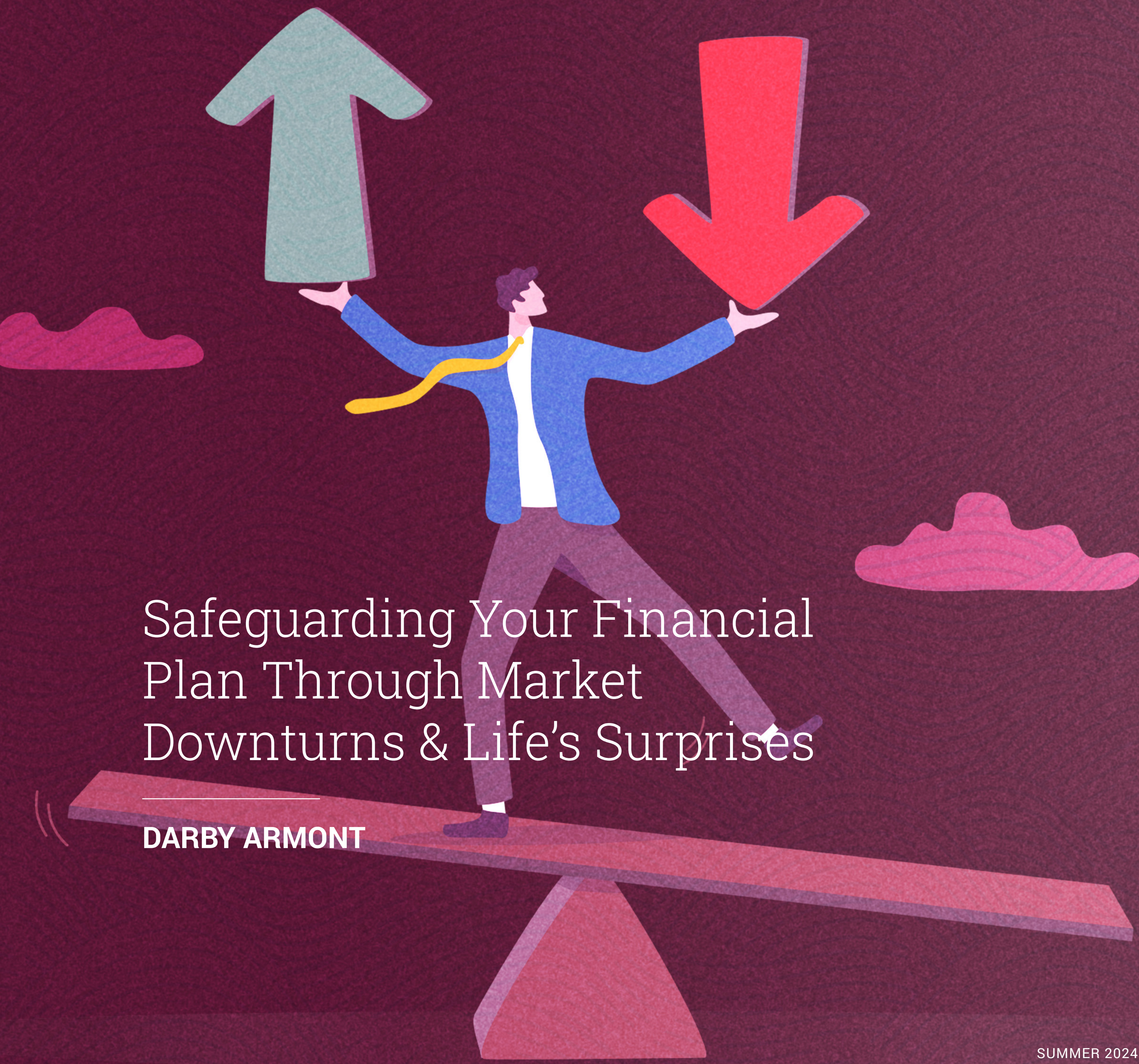

Safeguarding Your Financial Plan Through Market Downturns & Life's Surprises

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In the world of investing, market volatility is a certainty. Economic cycles impact financial markets, and investors may over- or underreact to these fluctuations, which can be detrimental to a sound financial plan. Life events such as being laid off or facing an unexpectedly large expense may also cause people to make impulsive changes to their financial strategy.

As wealth managers, we expect and plan for these cyclical conditions and life events accordingly. We understand that markets will perform either above or below the long-term averages each year. Events will happen in people's lives, some positive and some negative. It's the nature of the markets and of life, and reacting to short-term events with hasty changes can harm your long-term financial well-being. Below are some observations we recommend all investors keep in mind for their financial planning:

1. Short-Term Volatility vs Long-Term Goals

The primary reason to avoid making hasty changes to your financial plan during a down market is the distinction between short-term market volatility and your long-term financial objectives. Planning for long-term financial goals, such as retirement, education funding, or wealth preservation, is built on a foundation of consistent and disciplined investing and accounts for conventional market fluctuations. Altering your financial plan based on short-term market movements can disrupt the alignment with your long-term objectives.

The same can be said for events such as an unexpected job loss. People's natural tendency is to assume that drastic changes to their lifestyle are required. They may hesitate to invest in home repairs or think their children can't attend their dream college. The impact of these decisions may not be immediately apparent but can result in even higher expenses or disrupted family relationships down the road.

2. Market Timing is Risky

Attempting to "time" the market by making changes to your portfolio during up or down-market cycles is a risky endeavor. Market timing requires predicting not only when markets will decline but also when they will recover. Such predictions are challenging and often lead to suboptimal results.

Additionally, market timing can lead to significant tax implications. If an investor has held a position for a considerable time, it's possible that position holds a substantial capital gain. If the investor sells without proper planning and consideration, the transaction may trigger a taxable gain. If large enough, the investor could have to sell off additional shares to pay the tax bill, resulting in a double whammy when the markets are down.

Another timing issue arises when investors know they need to complete a transaction, such as selling a property, but want to wait until the price is "right." We have seen people wait years to sell a home, incurring property taxes and maintenance costs while waiting for the market to recover to a previous all-time high or the price they originally paid. In the meantime, they are depleting liquid assets to cover living expenses.

3. Emotional Decision-Making

Sizeable or enduring market drops can evoke emotional responses like fear and anxiety. These emotions can prompt impulsive decisions, including selling investments prematurely or retreating to safer assets, like cash or bonds. Such decisions are often irrational and driven by the desire to escape short-term pain, but they can have detrimental long-term consequences, including missed opportunities for recovery.

"By making reactive changes to your portfolio strategy, you risk undermining the diversification strategy design to help manage risk and accommodate cyclical volatility."

We also see the tendency to make emotional decisions during stressful times, such as losing a spouse. Hasty reactions may include selling a property or an investment perceived as too expensive or risky. Alternatively, we have seen people who are unable to make a decision, worried that it would be contrary to their spouse's wishes while alive.

4. Diversification and Risk Management

A well-structured financial plan includes diversification across various asset classes to spread risk and balance potential losses. When markets are down, some asset classes will lose value; others may rise in value. By making reactive changes to your portfolio strategy, you risk undermining the diversification strategy designed to help manage risk and accommodate cyclical volatility.

People may also inadvertently follow the same pattern when managing risk in other areas of their lives. They may become impatient with paying life insurance premiums or high

ABOUT RICHARD P. SLAUGHTER ASSOCIATES, INC.

Richard P. Slaughter Associates is a leading wealth-management firm specializing in delivering tailored strategies as a fiduciary for high net worth individuals, families, and businesses. Slaughter Associates constructs a comprehensive financial relationship with its clients by delivering expertise in financial planning and asset management while coordinating with tax, insurance and estate professionals. The result is a holistic approach—unique in the financial industry—that generates a clear path to the individual financial goals of the client. Founded in 1991 in Austin, Texas, Slaughter Associates was among the first fee-only firms in the nation, a fiduciary status that allows it the freedom to provide advice that is always in the best interests of the client. Slaughter Associates is a NABCAP Premier Advisor, recognized for its commitment to maintaining top business standards, first-class financial-management capabilities and dedication to preserving transparency in the financial services industry.

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property and casualty bills, seeking to reduce expenses as much as possible. If a catastrophic event occurs, the carefully planned risk mitigation strategy has failed, potentially impacting financial security.

As wealth managers, we construct financial plans with our clients that consider their current assets and develop an investment strategy that applies a projected rate of return and standard deviation. This plan weaves these assumptions with expected income and expenses. It is then tested thousands of times using different timings and magnitudes of market volatility as well as major life events and associated disruptions.

We then retest the plan on a regular basis to ensure the client's success rate stays within an acceptable range. If the test results fall outside that range, we evaluate the factors within the client's control and adjust accordingly.

One of our most important jobs is communicating the many factors we've considered when building a financial plan, why we've chosen a particular strategy, and what risks we can, and cannot, mitigate. We endeavor to ensure that our clients do not make short-term, emotional decisions that derail this strategy

Life guarantees very little — the unexpected can and will happen. But if you plan early and stay the course, you can confidently live your life even when the business section headlines sound alarms or life throws you a curve ball.

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