Registered Investment Advisor Firm

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Do's and Don'ts

With the coronavirus raging and stock market declines, now is one of those times you need to face adversity and fear and become as Suze Orman says, a "warrior". It is not easy with jobs disappearing, hours being shortened, markets falling and account balances shrinking. Look past the "now" and stay focused on your long-term financial goals.

Obviously, the virus, and the financial reaction to government action, is the main reason for the drastic decline in the markets. But do not forget the US has not had a recession in more than 10 years, the longest period in history without a recession. That may have shortened the time frame of market declines and made the fear more severe. We have never had a reaction to a health issue so severe in our history.

Below are some do's and don'ts to help survive this accompanying financial crisis to this health crisis.

Do put your bills on hold

As the coronavirus financial crisis worsens, homeowners are getting a break from mortgage payments, some states and communities are protecting renters from eviction and Americans with student loans can stop payments for two months, interest free.

If you can't pay your bills, or could really use some short-term relief, call anyone you owe money to and ask them what help is available. Some credit card issuers have suspended interest charges.

Taking advantage of offers to put off bill payments shouldn't hurt your credit score, but check your score regularly - which you can do for free – just to be sure you're not getting dinged.

Don't panic-sell your assets
When the stock market's coronavirus crash began, this looked like a great buying opportunity at bargain-basement prices. The worst action you could take was panic and sell assets. The question was always when do you buy back. Too many times investors miss the initial move up in prices because they are not

sure a bottom has been reached. Resist selling because patience will pay off.

Could assets keep going down? Prognosticators have not picked a bottom yet, but since Worlds War II, we have had 12 bear markets. The average loss was around 35%, and lasted a little more than 12 months, they typically made back their losses within 2 years and rallied to new heights.

Fight the temptation to sell and you will be rewarded. Right now, the times look dire, but it will come to an end.

Do keep investing more money if you can afford it

Not only should you not sell your assets, but you also shouldn't stop putting more money in. If you are not retired, now is not the time to stop investing. Focus on the long term.

If you are making regular automatic transfers from your bank account into an investment account or if a portion of your paycheck is going to a 401(k) or retirement plan, keep it going. This is called dollar cost averaging (DCA). This strategy removes much of the detailed work of attempting to time market purchases.

When the market recovers is unknown, but if you have time on your side, the focus should be on the fact that they will eventually recover. If you are retired, your portfolio is probably invested in bonds and cash. Those accounts are "safe" and solid.

Don't keep too little in your emergency savings

Right now, it's probably very difficult to beef up your savings for emergencies, but I hope you will come way from these difficult times with a new determination to save more for emergencies in the future.

Most experts believe a 6-month emergency fund is sufficient for most people. This virus mayhem may call for a little bit more.

You need a financial cushion for a bear market (20% decline in stock indexes) because you don't want to be forced to sell when markets are falling, and you don't want to raid your retirement money either. Doing that can trigger taxes and a stiff early withdrawal penalty.

Do be careful about making big purchases right now

Even if you've got the money, now is not the time to be buying a new car or a new smart phone.

You want to cut expenses, but stop major purchases because the future is unknown and you need to conserve.

Don't get carried away with online shopping

With so many businesses shut down and so many of us stuck in our homes, it might be tempting to combat cabin fever with some online shopping therapy.

Before you decide if online shopping will make you feel better about the current situation, consider some tough questions; If you don't make another penny for the next 3 to 6 months, would you be financially fine? Would you be able to pay all your bills? Would everything be OK?

Do use credit cards, but use them wisely

Though you want to keep your spending under control during this period of financial turmoil, it's alright to fall back on your credit cards if you find yourself in a bind. If you don't have enough money in your emergency fund to cover expenses, use a credit card for essential purchases.

Do everything possible to pay the minimum due each month. Staying current -paying the minimum is fine during a crisis- is key to maintaining a good relationship with the card issuer.

If you are relying on a credit card, try to use one with cash-back rewards, so you are essentially saving money each time you use it.

Don't assume the job market will snap back to normal

Some jobs may not be coming back. I think we are looking at a total revamping of how business goes on after this crisis

So, update your resume and try to learn some new skills during your downtime. We will not go back to business as usual.

Do be worried about a recession

Many economists say a coronavirus recession is on its way, if not already here. The National Bureau of Economic Research (NBER), which officially declares recessions, defines a recession as a significant decline in economic activity spread across the economy, lasting more than a few months. They use real GDP, real income, employment, industrial production and wholesale-retail sales to make their decision. Consumer Confidence will fall, evidence of an upcoming recession. If the economy is going into decline, you need to be concerned, even if you are still holding onto your job.

Why should a recession matter to you? It matters because people reduce spending money, therefore jobs are cut, and the spiral continues.

Don't miss out on a chance to convert your IRA

With a traditional IRA you make contributions to your retirement account from your pretax income. Withdrawals will be taxed as current income after age 59-1/2. But with a Roth IRA, the money is taxed up front, so withdrawals are often tax free.

When markets are down like this, now is the time to consider converting.

The reason is that the amount you convert from your traditional IRA to a Roth IRA will be taxed as income. If your income is down this year you get the double benefit, one from lower traditional IRA amount to be taxed on the conversion and lower income tax bracket due to lower income.

Don't confuse wants with needs

Now is one of those times when it's particularly important to understand what you need, as opposed to stuff you just want. Just because you have the money doesn't mean you should waste some. Layoffs are mounting and income shrinking, so watch your money.

If you need help with money management or any other financial questions, contact me at (707) 648-2024.

FED Watch

Less than two weeks after the FED last cut interest rates and only days after expanding its "repo" operation by nearly $1.5 trillion dollars, the FED moved up its regularly-scheduled March meeting by days and cut the Fed funds rate by a full percentage point to a range of 0-.25%.

This unprecedented Sunday meeting was to address tightening conditions in the financial markets. Investors flooded into Treasuries, driving prices up and yields down to record lows. But now have decided that cash is preferable to hold, even if it earns nothing.

With lots of sellers finding fewer buyers for treasuries and other bonds, yield on these instruments began to rise. In hopes of addressing this unwanted tightening in financial conditions, the FED expanded its repo activity, allowing Treasuries to be exchanged for cash. These repo operations come with a contract for the seller to later re-acquire these bonds at an agreed-upon price

With the markets still reeling the FED re-started the Quantitative Easing by purchasing up to $500 billion in treasuries and up to $200 billion in mortgage bonds. As they did in the days after the Great Recession, this will help the markets in that there will be a large buyer in place for these instruments, so liquidity will be preserved or enhanced. In turn this will help keep rates from rising.

So far there is zero chance of a rate increase or decrease for the rest of the year.

Next meeting:
April 28th and 29th.

Castle Rock Wealth Management

Castle Rock Wealth Management is a Hybrid Advisory firm servicing the needs of clients across the United States.

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If you have questions or would like further information on this month's topics or any other financial or investment related subjects, please contact me by phone or through my email address at:
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