RMB CAPITAL

PLANNING IN UP AND DOWN MARKETS

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Market ups and downs are normal. In February of this year we hit an all-time market high, which was followed by one of the fastest market drawdowns in history. At the same time, interest rates remain extremely low, and estate and gift tax exemption limits remain high. While we can't predict or control which direction the market will go—especially in the short term—we can use planning techniques in different market environments in order to improve financial outcomes and reach goals beyond just relying on investment performance.

Planning Techniques for Up Markets

When markets are high, as they were at the beginning of the year, the following tactics can be considered in the appropriate client situation. The theme behind these is that they capitalize on market highs while also satisfying other objectives, such as generating cash and/or reducing risk by taking some profits off the table.

1. ***Accelerate Required Minimum Distributions (RMDs) from IRAs.*** Some individuals wait until year-end to take distributions or spread them out over the year. When markets are profitable, consider making withdrawals to satisfy your annual RMD sooner.

2. ***Explore Charitable Giving Opportunities.*** Make qualified charitable distributions (QCDs) from an IRA when markets are profitable or accelerate charitable gifts (potentially several years' worth) using appreciated stock. Gifts of appreciated stock avoid capital gains on sale and provide charitable deductions equal to the fair market value of the stock.

3. ***Consider Family Gifts.*** Instead of waiting until year-end holidays to make gifts, consider making gifts earlier in the year, or raising cash by selling stocks and setting the cash aside if you prefer year-end gifts.

4. ***Assess Cash Flow Needs.*** Review near- and long-term needs and consider setting aside cash within investment portfolios to address a longer period of cash flow needs.

5. ***Rebalance Portfolios.*** Harvest gains by trimming stocks (or de-risking) at high prices and adding to less volatile investments.

Planning Techniques for Down Markets

The 11-year bull market came to an end in March and was replaced with dramatic volatility, largely in reaction to the COVID-19 pandemic and related lockdown. Even though the markets have somewhat recovered, the economic impact of the pandemic has been substantial and more volatility is likely. Following are techniques that clients can consider, depending on their circumstances, in order to take advantage of depressed prices.

1. ***Accelerate 401(k) Contributions.*** Review your current investment allocation and consider accelerating contributions to take advantage of depressed prices.

2. ***Consider a Roth Conversion.*** For certain individuals, it may make sense to convert your traditional IRA to a Roth IRA, realizing the income today and repositioning assets for future market appreciation »

tax-free. *(See our Advisory Commentary from April 14, 2020, which recaps recent legislative changes, highlights important considerations, and illustrates sample long-term scenarios.)*

3. ***Rebalance Portfolios.*** Rebalance to existing targets or potentially increase your equity target, where appropriate, to take advantage of lower prices and better position your portfolio going forward.

4. ***Harvest Tax Losses.*** Reduce your tax liability and offset capital gains by booking tax losses in stocks that have declined below their purchase price. *(To learn more about this, see Tax Loss Harvesting: What, How, and Why? last updated on March 13, 2019.)*

5. ***Exercise Stock Options.*** When options are close to expiration and higher in value than the original grant price (a.k.a., "in the money"), consider using cash to exercise options and hold the underlying stock.

6. ***Refinance Debt.*** Consider refinancing mortgages and other debt, as low interest rates provide low "hurdle rates" for investments to grow faster than interest obligations.

We can always count on markets to be cyclical, even if we cannot predict how long those cycles will last or how swift and severe the swings will be. Having a financial plan based on long-term goals provides a road map to help you stay the course through different market environments. And reviewing that plan with your advisor can also inform conversations about when to pump the brakes or press the accelerator in light of current conditions and your own personal circumstances. ■