CAPITAL A WEALTH MANAGEMENT
TALKS STRATEGIES TO MANAGE MARKET VOLATILITY

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UP AND DOWN. ROLLER COASTER. MERRY-GO-ROUND. BULLS AND BEARS. PEAK-TO-TROUGH.

Sound familiar? This is the language we use to talk about the stock market—even our language is jarring, bracing, and vivid with volatility and spikes.

Still, financial strategies tend to revolve around market-based products for good reasons. For one thing, there is no other financial class that packs the same potential for growth, pound for pound, as stock-based products. Moreover, because of growth potential, inflation protection, and new opportunities, it may be unwise to avoid the market entirely.

However, along with the growth potential is the potential for loss. Many of the people we see in our office still feel a bit burned from the market drama of 2000 to 2010. That was a rough stretch, and many of us are once-bitten-twice-shy investors.

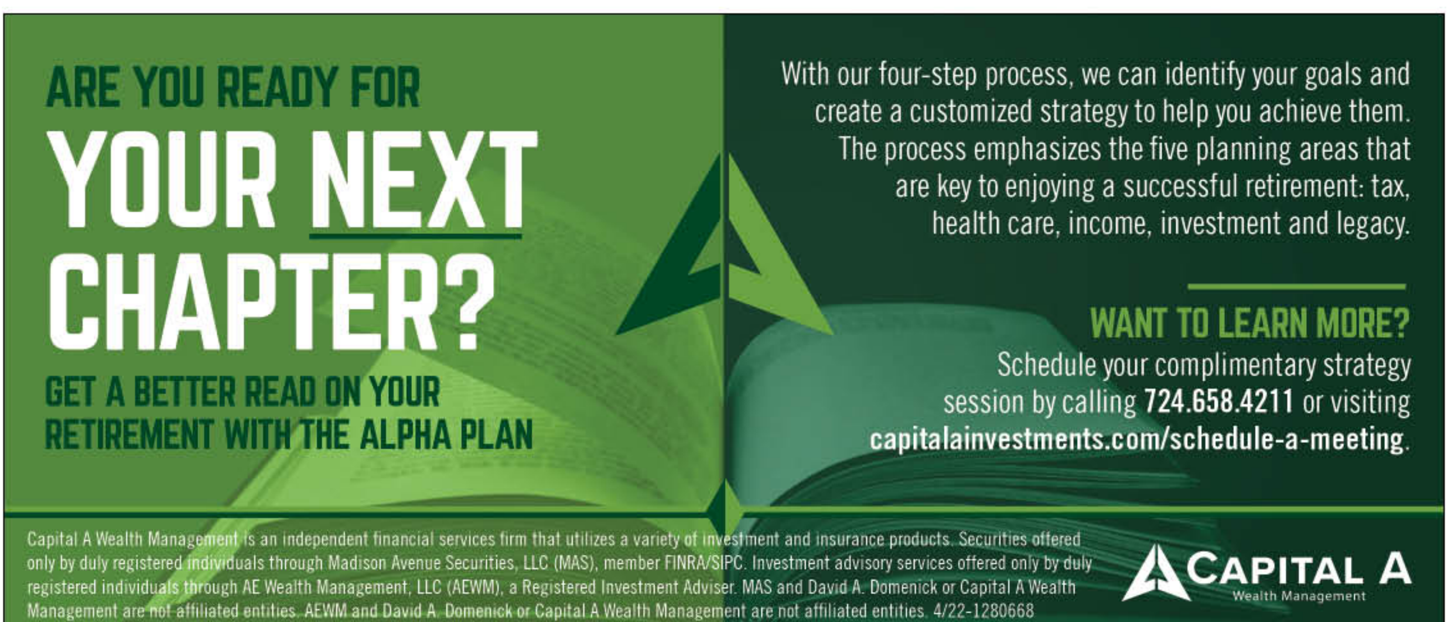
So how do we balance these factors? How do we try to satisfy both the need for protection and growth?

For one thing, it is essential to recognize the value of diversity. Now, we're not just talking about the diversity of assets among different stocks or even other kinds of stocks and bonds. That's only one kind of diversity. While important, both stocks and bonds (though different) are both still market-based products. Moreover, most market-based products, even within a diverse portfolio, tend to rise or lower, just like an incoming tide. Therefore, a portfolio diverse in only market-sourced products won't automatically protect your assets when the market declines.

In addition to the sort of "horizontal diversity" you have by purchasing various stocks and bonds from different companies, we also suggest you think about "vertical diversity," or diversity among asset classes. This means having different product types, including securities products, bank products, and insurance products—with varying growth potential, liquidity, and protection levels—all following your unique situation, goals, and needs.

Our process for determining a client's risk tolerance is very different from than many advisors. We don't simply ask our clients how they feel toward risk in the markets, leading to general, less helpful answers like "aggressive" or "conservative." We use software that gives us more detailed insight into how our clients feel about risk. Our process is more comprehensive.

Some of the program's questions involve choosing different financial scenarios to determine specific risk-assessment preferences, such as:



WOULD YOU RATHER:

OPTION A: Flip a coin and have a 50/50 chance of your portfolio gaining 100 percent if it's heads or losing 50 percent if its tails.

OPTION B: Earn 5 percent.

This is just an example, but the software calculates a risk score at the end of the questionnaire, anywhere from 1 to 99. A score of 1 would mean you are ultra-conservative and can't stomach any risk. A score of 99 would mean you are ultra-aggressive and seeking maximum growth.

Our clients typically fall into the 35 to 55 range. They are nearing retirement, and they don't want a down market determining if they can retire or not. Therefore, they take some risks off the table. They are looking for protected rates of return and not tons of volatility.

We believe this software is an excellent approach to establish a baseline, but at Capital A, we also understand there's more nuance to creating a customized retirement strategy than simply using software or clarifying general risk terms.

We believe your money should be divided into three buckets: protection, income, and growth.

The protection bucket is for those unexpected moments that arise in life, the emergencies we all encounter.

The income bucket is for financing your general lifestyle and monthly bills. For example, using some of your retirement savings to purchase an annuity, such as a fixed index annuity, that could provide a consistent, monthly income stream would fall within this category.

Finally, the growth bucket is where you can be more aggressive with your investments in the market since you already have your protection and income buckets accounted for. This bucket is subject to more volatility and market risk. You could lose money, but you also have the potential for higher gains and the opportunity to help combat inflation with these funds.

Figuring out your protection and income buckets can help us determine how much risk you're comfortable taking in the markets if any. Remember, your essential daily income shouldn't depend on the markets; it should depend on math!

This article is an excerpt from, Capitalize on Retirement: Make the Most of Your Life Savings With Capital A Wealth Management, now available on Amazon!