Market Mover

Risk in the Stock and Bond Market

One of the most important things to understand when investing is your ability and willingness to be exposed to the risks of the market. Risk is usually measured by the volatility in prices, and it is related to the potential return of an investment. For example, a low risk investment such as a certificate of deposit (CD) will often have a low return, while a higher risk investment in stocks, over time tends to yield a much higher return.

An often overlooked risk for people trying to save for a comfortable retirement is that your savings don't keep up with the rising cost of living (inflation). As a result, investors will want to include riskier investments in their portfolio because they are looking for the greater return potential these investments may offer.

What you need to consider, is; how would you react to a 10-20% drop in the market? Would you still sleep comfortably? As recent as in 2008-09, the stock market saw a significant negative movement (the S&P 500 dropped 37%). We are not saying that this will happen any time soon, and it may never happen again, but it is something you should consider when approaching your investments. However, the price volatility is on paper only. You haven't actually lost anything until you sell, just like you haven't actually gained until you sell to lock in a profit. And if you are receiving a dividend on your stock, or interest on your bond, then you are essentially getting paid to wait for the security prices to potentially come back to higher levels.

The higher your risk tolerance, the better returns you may be able to achieve over time. On the other hand, while higher returns may be attractive, you may be more comfortable at a relatively lower level of risk. These are very individual decisions, and either is a suitable approach to investing.

Although past performance does not dictate future results, common stocks have historically offered higher returns than other investment vehicles. Along with these higher returns come higher risk, and there will be periods where any investor may "gain" or "lose" money on paper.

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Even though economies and markets move in cycles, the thought of another downturn like we experienced in 2008-2009 can be extremely unsettling. We understand that the growing complexities of global markets and investment choices can leave the average investor feeling a bit overwhelmed and that is why we urge our clients to turn to us with their questions and concerns. We can help you find the best products, services and strategies to fulfill your investment goals so that you can rest easy at night.

529 College Savings Plans

The future of the very popular 529 plan for college saving has been in the headlines a lot recently, as the preferential tax treatment has gained a lot of political interest. The proposed changes were withdrawn before being voted on and therefore the plans continue just as before. We will use this opportunity to highlight some of the very attractive features a 529 college savings plan has to offer;

- Accounts are not limited by account size, but instead by the total contribution per beneficiary. For example, both Virginia and Maryland have a limit of $350,000 in contributions, whereas the account value can be much higher through accumulated investment gains
- The capital gains are tax free, if withdrawn to pay for higher education expenses. This can amount to significant tax savings over time
- If you will be counting on Financial Aid to cover part of the college expenses (especially if you have several children in college at the same time), the funds in a 529 plan receive the preferential status of counting as an asset of the parents, and not of the child. However, distributions from a 529 plan owned by the grandparents will count as student income, which has a direct negative impact on the financial aid. By limiting such distributions to the last two years of college, when the level of financial aid has been determined for those years, can reduce this impact
- For estate planning purposes, the annual gift tax exclusion applies (currently $14,000 per year). Once again, the 529 plans have a nice added feature, in which you can "frontload" the account with 5 years' worth of gifts (just remember, that you have then used the gift amount for the following years). This allows the account to compound the investment returns over a longer period of time
- The beneficiary is the only person for whom the funds can be used. However, you, as the owner of the account, retain the control, and can change the beneficiary as often as the plan allows (typically once per calendar year), as long as it is within the family of the original beneficiary. This opens up for re-assigning it to siblings, first cousins, aunts and uncles, and even parents or grandparents going back to school. In the event of the original beneficiary receiving higher than expected scholarships, or finishing school a year early, the money is still available for others in the family

If you have questions related to 529 plans, or would like to start one for a child or grandchild, please contact us.