Regions Wealth Podcast

Episode: Special Episode: Investing in a Volatile Market

Description: During an unprecedented time of financial uncertainty and market volatility, many Americans are concerned about their portfolios. In this special episode of Regions Wealth Podcast, Chief Investment Officer Alan McKnight joins us to discuss how the markets have been affected by COVID-19, what investors should know, and how the current conditions may impact their investments.

Episode Transcript

Anne Johnsos:

Welcome to Regions Wealth Podcast, the podcast that tackles life's challenges with financial experience. I'm your host, Anne Johnsos. During an unprecedented time of financial uncertainty and market volatility, many Americans are concerned about their portfolios. In this special episode, we'll cover what individuals should know about COVID-19, how the markets have been affected, and how it may impact their investments.

Joining me remotely is Alan McKnight. He's the Chief Investment Officer for Regions Bank. Alan, thanks for being part of this while also social distancing.

Alan McKnight:

Anne, thanks for having me. It's a pleasure to be speaking with you today.

Anne:

The markets have been severely affected by the COVID-19 crisis. So what's unique about the volatility we've seen?

Alan:

The biggest difference about this particular crisis has been the magnitude and the speed of the volatility. Historically, we haven't seen volatility come in such short order, coupled with the size and the level. And the volatility spike was akin to what we saw back in the great financial crisis of 2008 and 2009, but in a one to two month period. And the way we look at it is that we are all in the same storm, but we're not all in the same boat as investors. If you're an investor that has primarily bonds in your portfolio, you've been unaffected for the most part by this swift and large draw down. If you have primarily equities in your portfolio, you're completely experiencing the waves, the wind, and everything that is coming about as it relates to this.

And the biggest differential would be that in history, what we have seen is that these have come about due to asset bubbles, whether that be technology valuations, or housing, or the Asian debt crisis, but in this case, it was a health pandemic and something that the market is not normally used to responding to, and specifically, not used to responding to on a global scale. It has been much more regional in its orientation. And because of that, we've seen a spike in unemployment. We've seen jobless claims go through the roof. We've seen furloughs in the United States, and it's really been a global scale and it's unlike what we've ever seen historically.

Anne:

Many listeners have seen a fairly large drop in their portfolios. What are you telling clients who've experienced this?

Alan:

The first thing we're telling clients is not to panic. Assess your portfolio, the expectations that are embedded in that portfolio, and the risk objectives associated with the portfolio and your goals, and talk to your advisor and your portfolio manager to better understand what is the long term impact.

Anne:

People might be tempted to pull their money out of the stock market. How would you respond to that idea?

Alan:

Mark Twain once said that history doesn't repeat itself, but it rhymes, and if rhyming is a precedent within the stock market, what we have found is that the time in which it feels the best to pull out of the stock market when valuations are lower and there's a lot of news and noise around what's going to happen is exactly the wrong time to pull out. And what we found, and specifically back in the great financial crisis, at the depths of the selloff, it was actually the best time to reallocate to stocks. We saw a low in March of 2009 within the S&P 500, and within the next decade, we've seen multiples made off of that amount. So the key would be understand how much risk you want to take, understand if you're comfortable with having stocks in your portfolio at all, and if you do, ensure that you don't make the wrong choice or hit the panic button in the midst of global stock volatility and end up having to buy back in at a later date.

If in fact you are experiencing a psychological impact of this and the risk objective is too high, you're experiencing too much of the sleepless nights, the concern, reviewing your portfolio minute by minute online, then it may be the right time to speak to your advisor, to your portfolio manager about lowering your risk tolerance and understanding what the tradeoff may be. There are multiple levers you could utilize within a portfolio to better fit to the goal for the plan, and this is the time to do that.

Anne:

For people looking for somewhere to put money, what are some solid options in an economic environment like this one?

Alan:

We still believe that a diversified portfolio of bonds, stocks, and diversified strategies are the best option for investors. We think that within that, two overweight domestic large cap stocks is really the best suit for most right now, and specifically because we think that large multinational domestic companies have the greatest opportunity over the long term, based on what we've just experienced, and the fact that they have more levers to pull as it relates to their operating structures and their growth dynamics than smaller companies in the United States, or versus their international developed peers in Europe and in Japan.

In addition, within fixed income, we think that a high quality bond portfolio is the best recipe for an investor, and specifically not taking on too much credit risk at a time when a number of companies are experiencing credit challenges.

Anne:

If our listeners are preparing to retire in the next five years or so, what should they know?

Alan:

The key for anyone who's preparing to retire is understanding what the cash flow needs are going to be at retirement, the asset levels that you have today, and how do those two match off. And understand as you transition from employment to retirement, are there other costs that are going to be baked into that retirement? Are your expectations set appropriately around how much cashflow you'll need? And then you almost back into the asset categories within a portfolio to meet those needs and meet the longer term needs for an individual, which we have found, over the last 20 years, is that life expectancies continue to go higher, while healthcare costs continue to go up. And to ensure a healthy and happy retirement, it's critical that you understand the length or duration of retirement and that you have captured all of the variables as associated, so in the event something comes along, that you're well-prepared. Regardless of whether you have what we've seen over the last couple of months or not, it's critical to have that goal orientation and preparation going into retirement.

Anne:

For those who have a longer runway to retirement, what would you say?

Alan:

For those who have a longer runway to retirement, you can take on more risk within a diversified portfolio, so that translates to having a higher proportion of your portfolio in stocks rather than just in bonds or cash. The reality is that each portfolio is custom and it has to match up with your risk tolerance. So you may be able to take on more risk with stocks and have a higher percentage of your portfolio in stocks, but if you're not comfortable with that and you can't sleep at night because of that, well then you may not want as much of that in your portfolio, and you in fact may have a portfolio makeup that looks something more akin to someone closer to retirement, but that will mean that you need to find other ways to save and prepare for retirement.

Anne:

You've mentioned liquidity as an overlooked consideration in the current environment. Why is that?

Alan:

Liquidity is key, and liquidity has three key features. One is psychological. So having that buffer during a market selloff makes you feel more comfortable and confident in the total portfolio and allows you to push through that panic phase as markets selloff. Two, there's an opportunity to purchase assets at distressed pricing or a discount. So if you've maintained that level of liquidity, you now have that opportunity to buy in at a lower price. And then finally, liquidity offers you the opportunity to manage your finances and needs during dislocation. So your situation may have changed, someone may have lost a job, you may not have the same cashflow coming in from your business, and that liquidity will be that buffer for you to manage through until such time that either your personal finances or your business finances are in a better position.

Anne:

Finally, Alan, we like to leave our listeners with a takeaway or two, something they can tell their friends as they communicate through these conference calls or web meetings or whatever else, right? Is there anything you'd like to make sure our audience knows?

Alan:

There are a few things. One is to stick to the facts, and the facts don't speak for themselves. Someone has to speak for the facts because it's easy in this time period to build around narratives, stories of what will occur, what might occur, when in fact, the critical element is, "What have I planned for, what is my current situation, and how can I forecast forward to understand what might be going on?"

And secondarily would be, it's always easy to look in the rear view mirror and think of the good old days. And I'm reminded of my great, great grandmother who grew up in the frontier of Texas in the late 1800s. And when she lived with my father during the Depression, whenever anyone would say, "Oh, don't you remember the good old days?" she would immediately bristle and say, "I don't think you remember the same history that I do." And so, as we think back over time and where we are today, we have gotten through challenging times before with a plan and goals in mind. We will get through this, but it won't be without risk and volatility, and it's a matter of planning to prepare.

Anne:

Thanks so much. Alan McKnight, Chief Investment Officer at Regions Bank. You've been a voice of reason during these uncertain times.

Alan:

Anne, it was a pleasure to speak with you today.

Anne:

And thank you for listening. Every episode of Regions Wealth Podcast tackles a different financial challenge with the help of a Regions advisor. We hope you'll join us again and share this podcast with a friend. See you next time.