MarketWise

SHOULD YOU WORRY ABOUT MARKET VOLATILITY?

This month's article, provided by Broadridge Advisor Solutions, is about handling market volatility, inspired by the blink-and-you've-missed-it equity sell-off at the beginning of August. In less than two weeks, the S&P 500 was essentially in the same place it started the month, and by the final day of trading was well above its starting point on August 1st. Interestingly enough, September has started with more of the same: a steep equity sell-off triggered by some worse-than-expected manufacturing data; a mild recovery due to slightly better than expected jobs data; and a good start to the day derailed by OPEC+'s decision to delay a planned October increase in oil output. And it's only lunch time on the third day of trading! So as the market enters what is traditionally the worst month of trading of the year (see this article from Investopedia for more), election season ramps up, and the Fed begins to adjust monetary policy, we advise that volatility will likely remain heightened for a while. However, we, as usual, are optimistic and bullish; remember, as shaky as the last month or two might have felt, the S&P 500 is still up over 15% on the year (9/5/24 intraday). Not too shabby. - **David J Brunswick III (1, 2)**

INDEX	YTD	12 MO.
S&P 500	+18.42%	+25.31%
Dow Jones	+10.28%	+19.70%
NASDAQ	+18.00%	+26.21%
Russell 2000	+9.40%	+16.74%

As of Market Close 8/30/2024 Source: Yahoo Finance Charts

Should You Worry About Market Volatility?

On August 5, 2024, the S&P 500 Index dropped 3% from its previous close, the largest single-day loss in almost two years. This continued a three-week slide that saw the benchmark index — generally considered representative of the U.S. stock market — decline by 8.5%. The tech-heavy NASDAQ Composite Index dropped even further, losing 3.4% on August 5 and more than 13% over a four-week period.

The final losses for the day were not as bad as they might have been. In the early morning, the CBOE Volatility Index — often called the fear gauge — reached the third-highest level in its history, eclipsed only by the 2008 global financial crisis and the 2020 pandemic crash. By the end of the day, however, it had settled to a more normal level for a down day. And the market rebounded quickly. Two weeks later, the S&P 500 was just 1% off its all-time high, while the NASDAQ was about 4% down from its peak and riding an eight-day winning streak. **(3-5)**

Tuning Out the Noise

If you were paying close attention to the market on August 5, it would have been natural to be concerned. But as the subsequent bounceback illustrates, it would have been unwise to panic and change your investment strategy in response to the temporary volatility. Selling when the market declines is the surest way to lock in losses, and you may miss out when the market rebounds.

Most individual investors are best served by building a diversified portfolio appropriate for their goals, time frame, and risk tolerance, and letting the portfolio ride market swings and pursue growth over time. Over the last 30 years — a period that included three recessions — the S&P 500 has returned an annual average of about 10.7%, assuming reinvestment of dividends. Of course, returns have varied widely from year to year, but pursuing long-term growth is at the heart of being an investor versus a speculator. As Nobel laureate economist Paul Samuelson put it, "Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas."

Being a long-term investor does not mean you should totally ignore market movements or never change your investments. What's important is to distinguish between events that cause short-term market volatility and fundamental business and economic changes that may lead to longer-term market shifts. As an example, it might be helpful to look at the recent volatility. **(6 -7)**

Jobs and High-Risk Trading

The market slide was caused in part by concerns that the U.S. economy might be slowing and that the hoped for "soft landing" from the Fed's inflation-fighting interest rate policy might be harder than expected, possibly even ending in a recession. This concern was increased by a disappointing jobs report released on Friday, August 2. The S&P 500 dropped 1.8% that day, and the NASDAQ dropped 2.4%, sending it into correction territory (a decline of more than 10% from a previous high).

While these were genuine concerns about the U.S. economy, there was also a web of complex high-risk trading strategies coming unraveled and driving the volatility. These strategies depend on borrowing or "leveraging" that magnifies the potential gain while also magnifying the potential loss.

Hedge funds and other speculators had borrowed billions of Japanese yen at ultra-low interest rates in order to buy other investments. While many central banks had raised interest rates to combat inflation, Japanese rates were still near zero due to years of economic stagnation. When the Bank of Japan raised its policy rate on July 31, the yen became more expensive, leaving speculators scurrying to disentangle their leveraged bets. The August 5 market mayhem began in Japan, where the benchmark Nikkei 225 Index plunged by more than 12%. By August 6, bets against the yen had dropped more than 80% from their peak.

Another heavily leveraged strategy involved buying large quantities of technology stocks, betting big on the future of artificial intelligence, often while betting against small cap stocks, which have suffered from the high interest rate environment. Poor earnings reports by big tech companies, combined with the prospect of lower interest rates that would help smaller companies, blew up these bets and forced speculators to try to cut their losses. **(8-11)**

More to Come?

While much of the early August volatility was caused by high-risk trading strategies, the jury is still out on the U.S. economy. Investors will closely watch upcoming economic data and events, including the August employment and inflation

reports to be released on September 6 and 11, respectively, and the Fed meeting on September 17–18, where central bankers are widely expected to reduce interest rates. The November election, regardless of outcome, is also likely to stir markets. However, as recent volatility illustrates, it's generally wise to tune out the noise and stay the course of your own investment strategy.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. Investments seeking higher rates of return involve a higher degree of risk. The value of a foreign investment, measured in U.S. dollars, could decrease because of unfavorable changes in currency exchange rates. Investing internationally carries additional risks such as differences in financial reporting and economic and political risk unique to the specific country which may result in greater share price volatility. Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is no guarantee of future results. Actual results will vary.

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GENERATIONAL PLANNING STRATEGIES

RESCUE YOUR UNUSED 529 COLLEGE PLAN

If you have "leftover" assets in a 529, or if the beneficiary did not attend college, you can now "rescue" the unused assets!

An exciting new change allows owners of 529 college savings plan accounts to roll over remaining funds to their child's or grandchild's Roth IRA free of federal taxes. The change took effect on January 1, 2024, as a result of the SECURE Act 2.0, which was approved by Congress in late 2022 to enhance Americans' abilities to save for retirement.

1. **Who can receive the assets?** Rollovers can be made to the Roth IRA of the beneficiary of the 529 account.
2. **How long do you have to own the 529 account?** The 529 account must have been open and in the beneficiary's name for more than 15 years and the eligible rollover amount must have been in the 529 account for at least 5 years (including contributions and earnings). If you started contributing to the account when your beneficiary was young and there are assets left over after he or she has completed school and started working, this could be a great way to keep contributing to your loved one's life.

GENERATIONAL PLANNING STRATEGIES

CONTINUED:

3. **How much can be rolled over?** Rollovers are capped at the annual maximum for Roth IRAs, which for 2024 is $7,000, with an aggregate lifetime limit of $35,000. This is also dependent on the beneficiary's income earned and IRA contributions made. For example, if your beneficiary has already contributed $3,000 to a Roth IRA, the maximum you could roll over that year is $4,000.
4. **Does the beneficiary need a job or have already contributed to the Roth IRA?** The beneficiary must have earned income that at least equals the amount to be rolled over. For example, if you're planning on rolling over $5,000 in 2024, your beneficiary must have earned at least $5,000 for the year.
5. **What if the beneficiary makes too much to contribute to a Roth?** There is no earned income limit for these transfers. Normally, you can't contribute to a Roth IRA if your modified adjusted gross income in 2024 is more than $161,000 for single filers or $240,000 for those married filing jointly.

While the new rollover rules took effect at the start of 2024, the IRS could issue further interpretive guidance and clarify details applying to specific circumstances. Consultation with a financial professional could go a long way to keeping up to date on the latest details and how they apply to your unique situation.

If you or your children or grandchildren have 529 funds in need of "rescue", please contact us. We would love to help!

Source: https://www.jhinvestments.com/viewpoints/college-saving/five-things-to-know-about-rolling-a-529-account-into-a-roth-ira?cid=US-EN_JHIM_RT_PS_GOOGLEADS_AlwaysOn_TL_KW_RSA_529intoIRA_-_FA_COCTR_21175850584_-&utm_source=GOOGLEADS&utm_medium=PS&utm_campaign=21175850584_AlwaysOn&utm_content=FA_-&utm_term=JHIM_RT_US-EN_TL_KW_RSA_529intoIRA_-_COCTR&gad_source=1&gclid=CjwKCAjw59q2BhBOEiwAKc0ijUJS5h75J8339P70xBclAeLULFFsfvsLxMGA0snFmoksaQH_b8N9aBoCMywQAvD_BwE&gclsrc=aw.ds

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References

Should You Worry About Market Volatility?

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2) **Investopedia (**https://www.investopedia.com/terms/s/september-effect.asp**)**

3, 5, 8, 10) Yahoo Finance, S&P 500 Index for the period 9/1/22 to 8/19/24, NASDAQ Composite Index for the period 7/1/24 to 8/19/24, Nikkei 225 Index for the period 8/2/24 to 8/5/24

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6) London Stock Exchange Group, S&P 500 Composite Total Return Index for the period 8/15/94 to 8/15/24
7) Investopedia, September 15, 2023

9, 11) The Wall Street Journal, August 12, 2024

WHO WE ARE

Kingdom Financial Services is a full-service, family owned and operated, Christian rooted financial firm located in Wake Forest, North Carolina. We are associated with G.A. Repple & Company, which is a prominent Christian owned Broker/Dealer in the Southeast. We are trained Planned Giving Consultants with expertise in the areas of investment and financial insurance products and services.



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