NATIONAL ASSOCIATION OF REALTORS®

CENTER for REALTOR® FINANCIAL WELLNESS

A GUIDE TO MANAGING VOLATILE MARKET SHIFTS

JULY 2022

What is a Black Swan Event?

Black Swan events are rare. Without much notice, the economy stalls, the stock and housing markets tend to dive, and consumer confidence drops. During these periods of crisis, professional advisors urge the public to remain calm, avoid panic selling, and stay the course. The advice invariably seems to be “do nothing.” For many, this turns out to be good advice. But, doing nothing does not mean that nothing can be done.

With COVID-19 as the most recent experience from which to learn and adapt, the following ideas are provided to help you prepare for the next Black Swan crisis.

Always check with your professional advisor to help you decide the merits of these ideas for your circumstances. For more information on how to find an ethical, credentialed advisor, visit **letsmakeaplan.org**.

Identify sources of cash

Those willing to collect a low yield on holding cash are rewarded during a crisis. This is when cash, or liquidity, becomes king. But many REALTORS® are not in the position to stash the amount of cash needed to navigate through these periods. Consider the following strategies to draw cash when required after speaking with your advisor:

- Consider adding a “home equity line of credit” if you own a home. A HELOC is an underutilized strategy and can remain open without drawing cash until needed. You draw funds when needed and pay interest only when you have a loan balance. This can be an outstanding alternative to holding excess cash reserves, which instead can be invested for a higher yield and longer-term needs. It’s best to keep the use of HELOCs for emergency purposes only. As your circumstances stabilize, many should pay HELOCs down when possible and reserve for future emergencies.
- If you have a taxable investment account of more than $100,000, you may qualify for a “securities-backed line of credit.” A SBLOC works like a HELOC, except that your investment account — rather than your home — is used as collateral. This means that you can maintain both a HELOC and SBLOC. Depending on the lender, interest rates may be lower than a HELOC, and you will not need to sell investments when you draw money. Not all financial firms offer SBLOCs, and not all investors qualify.
- Cash-value life insurance policies can be an excellent source of cash. This option works best for those who have adequately funded their policies for a few years and have built up sufficient account values.
- Depending on the type of retirement account you hold and how the plan is written, your 401(k) account may be a source for a loan. Most retirement plans limit loans to $50,000. The interest charged is generally paid back into the account.

Refresh your insurance coverage and limits

This single idea is powerful for small business owners. If insurance were free, all REALTORS® would want it. Unfortunately, during Black Swan events, most people are under-insured. What follows are a few types of insurance to review before the next crisis:

- Life insurance. Many who died during COVID left loved ones who depended on their income in a financial bind. The question to ask yourself is if you or a significant other died due to an unexpected illness, would the survivors be able to maintain their standard of living?
- Disability insurance. This is also known as "income replacement" insurance because it pays an income benefit when an insured becomes sick or injured. This is a fundamental planning strategy for REALTORS®. Do you have disability insurance? And if so, is it enough? Has it been updated to reflect your most recent earning years? When you design your policy, consider that you may/will have a 90-day elimination period before benefits are paid. During this time, you can turn to other sources of cash to cover your expenses.
- Business continuity insurance. During the early days of COVID, you might recall that many businesses could not operate. Income dried up, and most expenses continued. Those who owned business continuity insurance failed when filing a claim with their insurance carrier for loss of business. The few that prevailed and received benefits were those that paid a little extra for a rider that covered pandemics. For some, that little extra premium cost was the difference between survival and closure. This example demonstrates the painful difference between getting the "minimum" insurance coverage and "comprehensive" coverage. In real estate, the COVID-related down cycle was short. Continuity insurance, in this case, would have been less valuable. But no one knows the cause or length of the next crisis. If you explore business continuity insurance, consider spending a little more for better risk management.
- When visiting with your insurance professionals, consider having your current coverages on homeowner, rental, auto, and umbrella insurance updated to reflect your current needs. And if during the last crisis you found your health care insurance problematic, consult with a health insurance advisor for more suitable coverage.

Update your estate planning

COVID was a wake-up call to better estate planning. If they contracted the virus, "healthy" people who felt invincible to medical risks could not control their outcome. The use of ventilators spotlights a simple, underestimated tool called Advanced Healthcare Directives. Decisions like "do you want to be kept alive using artificial machines?" and "do you wish to be an organ donor?" took the front stage for those who became ill. During COVID, 75% of American adults had insufficient, outdated, or no estate planning. Regardless of preference to vaccinate or not, everyone is subject to medical and mortality risks. Take steps today to protect yourself and your family:

- If you have some estate planning but have had changes in your family or financial assets or moved to another state, you will need to amend your documents.
- If you feel you have your estate plan perfected, schedule estate document reviews with an attorney every three to five years.
- As of Spring 2022, over one million Americans have died from COVID-related illnesses. Most of these people were adults, and most left significant others with insufficient instructions on their care and final wishes. While death and illness may have been unavoidable, helping loved ones make this process slightly easier is possible.

An attorney will likely recommend drafting several of the documents listed below:

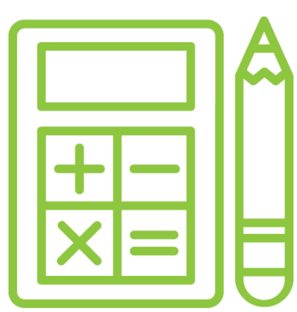
- **Will**: A legal document that states who you want to receive your assets when you pass away.
- **Trust**: A legal entity created to hold, protect, and distribute assets without probate.
- **Power of Attorney**: It gives another person the authority to handle your financial affairs during your incapacity.
- **Advanced Healthcare Directives**: It gives another person the authority to make medical decisions for you during incapacity.

Formalize your business practices

Legislators and some businesses provided generous allowances, exceptions, and subsidies during the last two Black Swan events. The sentiment was, better to spend money upfront and buffer a shock to the economy today than suffer the impact of a more considerable fall and longer recovery. Subsidies during COVID ranged from mortgage and rent relief to loan deferral and forgiveness to the Paycheck Protection Program (PPP) and Economic Injury Disaster Loans (EIDL).

REALTORS® who put themselves in the best position to take advantage of many of these programs maintain good business practices. Before the next crisis, you can put yourself in the same position by implementing:

- A business banking relationship
- Professionally prepared tax returns
- A profit and loss statement
- A breakdown of core and ancillary business expenses


Navigating the *next* Black Swan event

What follows are ideas that can help you survive, and even prosper, during a Black Swan crisis. Always check with your professional advisor to help you decide the merits of these ideas for your circumstances.

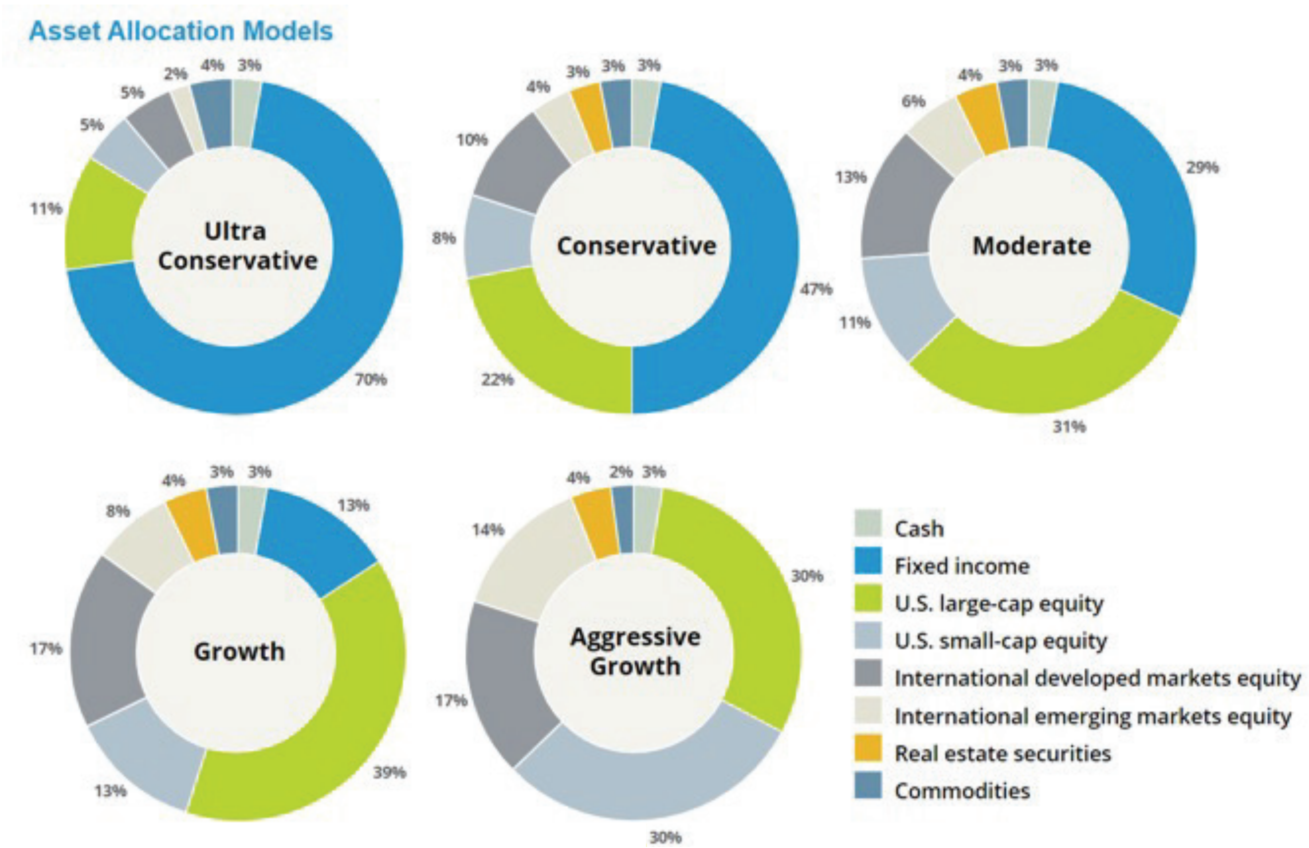
Revisit your financial plan

During a Black Swan crisis, your assets evaporate, and there is no end in sight and no assurance of an outcome. Your anxiety increases, and you feel the need to act. Or hide. While these feelings are normal, it's good to remember that emotions drive most of this anxiety.

To help manage these emotions, ask your financial planner to review your current long-term plan. An excellent initial plan and subsequent reviews should have incorporated your long-term needs and goals. The planning technology should regularly update your current account balances, which allows for better accuracy. A review of your plan can provide a real-time stress test of your financial condition during turbulent times.

When an economic crisis occurs, most people find, despite the markets misbehaving, that their plan has not changed much. This would indicate that your plan can survive the ebbs and flows of stock market volatility. Most investors are not 100% invested in the market reporting they see in the news. To explain the disconnect, to hedge volatility, in addition to stocks, most investors have bonds and other investments.

For example, below you will find hypothetical allocations that shift based on an investors' risk profile. This example includes the use of traditional asset classes and alternative investments, like real estate and commodities.



These models are for illustration and education purposes only and are not recommendations. Please work with a qualified financial planner to discuss an approach to investing that may be appropriate for your personal circumstances.

If, instead, it turns out that you will need to make adjustments, the same plan review can give you better detail on where modifications need to occur. Studies have shown that those seeking a secure financial future are better served by making minimal changes to spending or saving over a more extended period than making dramatic changes at retirement.

It starts with a plan review. This point assumes that you have a comprehensive financial plan to review. Many REALTORS® do not. Google is not a planner. An investment account or insurance policy is not a plan.

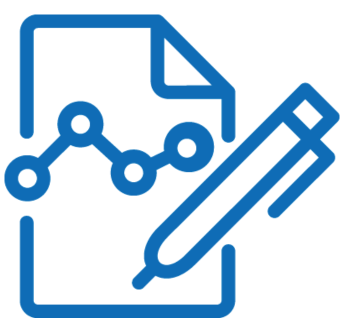
Studies have shown that those who work with professional planners have better financial outcomes in life and experience greater financial security. If you are already working with a financial advisor, request a written plan and subsequent reviews. If your advisor does not provide these services, consider consulting with a Certified Financial Planner™ or get more information about getting a financial plan at **letsmakeaplan.org**.

When account values drop, think tax savings

When your accounts drop significantly, it may be the right time for a tax-smart move. Tax-loss harvesting is selling a taxable investment at a loss to offset tax due from selling an asset with a gain. And if you don't have a gain to realize in that tax year, you can move that loss forward into another tax season.

For example, if you opened a taxable investment for $200,000, and the market drops 15% to $170,000, you can sell the investment for a $30,000 loss and use that loss to offset gains from another investment. If you do not buy back the same asset sold within 30 days, you can repurchase the original investments starting with the 31st day. If you do not want to be out of the market during those 30 days, you may purchase another similar investment. This works for most assets, including stocks, bonds, mutual funds, REITs, and rental real estate.

Another idea is to consider converting your 401(k) or IRA to a Roth 401(k) or Roth IRA. During a financial crisis and drops in account values, your real estate business may experience a decrease in income. The lower income can present an opportunity to execute this Roth conversion to take advantage of a lower or similar marginal tax year.



Gut-check your investment portfolio

Referenced earlier was the plea that the immediate selling of investments was not the best idea for most. History has affirmed that, long term, those who have worked with a professional advisor and have identified the right combination of investments and asset classes will be fine.

However, before a crisis, others held an inappropriate allocation for their investment profile. During and after a crisis, their allocation will not likely improve. These are the investors who should consider working with a financial professional.

In general, an investor who has an allocation consistent with their profile can survive the swings of their portfolio. They might have questions and concerns. But after updates and further education, most generally stay with their current strategy.

Those who have an impulse to sell should seek advice.

One last thought: a sharp stock market drop might also be a reason to rebalance a sound investment strategy. Rebalancing means selling asset classes that are performing better to fund those performing worse. For example, if an investor did that during the COVID March 2020 drop, that investor would have ended the year with a solid performance.