Investing in Uncertain Markets

Stephan Shipe, Ph.D., CFA, CFP®

CEO, Investment Advisor

SCHOLAR FINANCIAL ADVISING

Goals and Coverage

SCHOLAR FINANCIAL ADVISING

1. Personal finance preparation for uncertain markets

2. Market timing vs. Risk aversion

3. How to buy into a market when it falls

4. Tax efficient strategies for a falling market

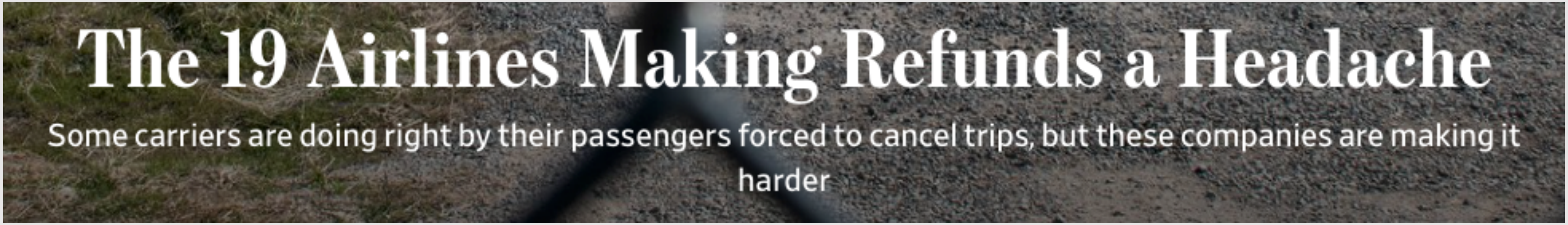
Pre-Crash Checklist

- How do you prepare your finances for times of uncertainty?
- Comparison against airlines during the 2020 pandemic

1
Maintain Liquidity

- Benefits
  - Ability to weather storms
  - Liquidity to take advantage of opportunities
  - Lower leverage gives you flexibility to add debt if needed
  - Lower interest rates on debt

- Disadvantages of cash (when not in crisis)
  - Opportunity cost
  - Poor allocation of funds, bad decisions



The 19 Airlines Making Refunds a Headache

Some carriers are doing right by their passengers forced to cancel trips, but these companies are making it harder

2
Reduce Variable Costs

- Variable costs change with revenue. Want to preserve as much incoming revenue as possible.
- Focus on essentials and revenue generating activities.
- Adjustments include:
  - More efficient production
  - Staffing changes
  - Hours of operation
  - “Running lean”

Coronavirus: Airlines all over the world park planes as pandemic plays out

SCHOLAR FINANCIAL ADVISING

BUSINESS

American Airlines, United to Cut 32,000 Jobs

3
Avoid adding fixed costs

SCHOLAR FINANCIAL ADVISING

- Fixed expenses are not easily decreased if income falls
- Avoid adding fixed expenses or taking on large projects that would pull immediately from cash or decrease credit worthiness
- Adjustments include:
  - Canceling or renegotiating long term commitments and contracts
  - Pushing new projects until there is more stability

American Airlines Has Threatened to Cancel Some Boeing 737 MAX Orders

The carrier has struggled to secure financing for 17 jets it had expected Boeing to deliver this year

CFO JOURNAL

Deals Are Being Dropped as Buyers Turn Wary During the Pandemic

U.S. companies this year have canceled 82 deals through Wednesday, up 41% from a year ago

Corporate deal makers are reviewing previously agreed-upon merger-and-acquisition agreements, as the coronavirus pandemic roils businesses and complicates the due-diligence process.

U.S. companies canceled 82 deals totaling $111.2 billion this year through Wednesday, up from 58 transactions totaling $50.4 billion that were withdrawn during the same period last year, according to Dealogic, a data provider.

BUSINESS

Boeing Loses Plane Orders as Coronavirus Hits Global Air Traffic

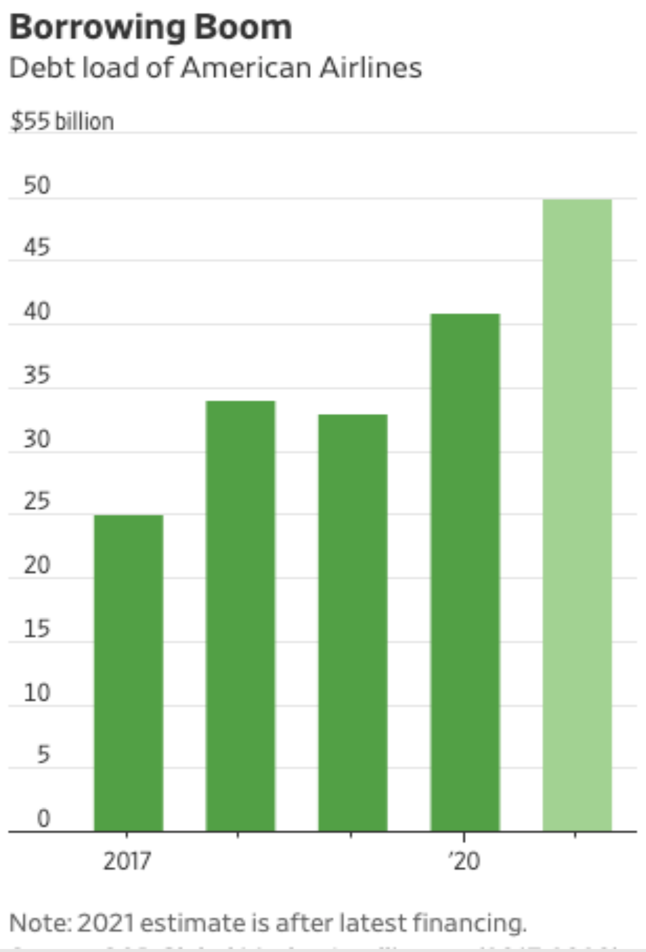
Travel slump coincides with continuing delays in returning 737 MAX to service

4
Pull easily accessible cash

SCHOLAR FINANCIAL ADVISING

- Pull from credit lines early before the option for liquidity dries up
- Low interest rate environment makes servicing debt affordable IF ability to pay exists

American Airlines to Use Frequent-Flier Program to Raise $7.5 Billion



U.S. Firms Gird for Hits and Draw On Credit Now

BUSINESS

Seven Airlines Close Billions of Dollars in Loans With Treasury

Treasury Secretary Steven Mnuchin urges Congress to approve more aid for airline workers

Delta to Use Frequent-Flier Program to Raise $6.5 Billion

Carrier follows United Airlines in putting up loyalty program as collateral, says it won't seek government loan

5
Look for Opportunities

- Prudent financial management means that your company is in a stronger position to take advantage of opportunities
  - Acquire competitors
  - Take advantage of low rates
  - Renegotiate for better contract terms
  - Repurchase shares

History Repeats Itself

SCHOLAR FINANCIAL ADVISING


BROOKLYN DAILY EAGLE

And Complete Long Island News

LATE NEWS

WALL STREET 1:15 PRICES ★ ★

89th YEAR—No. 295. ★ NEW YORK CITY, THURSDAY, OCTOBER 24, 1929. ★ 32 PAGES THREE CENTS

WALL ST. IN PANIC AS STOCKS CRASH

Attempt Made to Kill Italy's Crown Prince

STOCKS CRASH IN RUSH TO SELL; BILLIONS LOST

Morgan, Mitchell Buying Stocks in Effort to Check Rush to Unload.

ASSASSIN CAUGHT IN BRUSSELS MOB; PRINCE UNHURT

Royal Suitor Was About to Lay Wreath on Unknown Soldiers' Tomb.

Princess, Deeply Moved, Falls Into Fiance's Arms and Kisses Him

ATTEMPT MADE ON LIFE

Crown Prince Humbert.

Hollywood Fire Destroys Films Worth Millions

Consolidated Studios Are Swept by Flames Fatal to One—Master Pictures Burned Include Many New Talkie Productions.

FEAR 52 PERISHED IN LAKE MICHIGAN; FERRY IS MISSING

Wreckage Picked Up Indicates Craft Went Down With All Aboard.

PIECE OF PLANE LIKE DITEMAN'S IS FOUND AT SEA

High Duty Group Gave $700,000 to Coolidge Drive

FOR MORE LOBBYISTS

CARNEGIE CHARGE OF PAID ATHLETES

HOOVER'S TRAIN HALTED BY AUTO

WARDER SOUGHT TO KEEP SEA TRIP

SOMERS NAMED AS HEAD OF NEW

Big Firms Are Quick to Collect, Slow to Pay

By Serena Ng and Cari Tuna
Aug. 31, 2009 11:59 pm ET

SAVE PRINT TEXT

Large corporations are tightening the screws on their smaller counterparts as the credit crunch intensifies companies' efforts to hold on to their cash.

With Fistfuls of Cash, Firms on Hunt

Companies Begin to Tap Record Capital Piles for Mergers; Walgreen Says It May as Well Spend It


Tuesday, October 20, 1987

Dow Dives 508.32 Points

...ic on Wall Street

Billion... lost in... tradin...

in retaliation

MARKETS

Another Problem for the Fed: Banks Pressured as Clients Scramble for Cash

A variety of firms are drawing down their lines of credit to cover costs and make payroll as economic headwinds blow

Big Corporate vs. Small Business vs. Personal Finances

- These topics and decisions are similar regardless of where they are used:
  - Do you personally cut back on “extra” expenses when money is tight?
  - Are you likely to get a low interest rate on debt if you are over leveraged?
  - Do you avoid projects or borrowing money when the future is uncertain?
  - Does the value of cash in your account increase with uncertainty?

Recap

SCHOLAR FINANCIAL ADVISING

1. Keep cash
2. Reduce variable costs
3. Avoid adding fixed costs
4. Pull easily accessible cash
5. Look for opportunities

Understand your Risk Tolerance

- **Risk Tolerance:**
  - Assess how much market volatility you can handle emotionally and financially.
  - Consider your investment horizon and liquidity needs.

- **Market Timing:**
  - Understand that predicting short-term market moves is challenging.
  - Avoid trying to “time” the perfect entry or exit. Must be right twice!

Balance your portfolio based on personal risk tolerance, and focus on disciplined, long-term strategies over reactive market timing.

Tax Loss Harvesting

- Selling investments at a loss to offset taxable gains from other investments.
- Reduces overall tax liability in a falling market.
- Can help rebalance your portfolio by replacing underperforming assets. “Buy low sell high”
- Be aware of the “wash-sale” rule which prevents repurchasing the same or substantially identical asset within 30 days.

Strategic Wealth Transfer

- Don’t underestimate the potential size of your estate
- Optimize the transfer of wealth during market downturns when asset values may be lower.
- Gift assets to children when prices are lower
  - Growth will happen outside of your estate
  - Possibly lower tax bracket

Roth Conversions in a Down Market

SCHOLAR FINANCIAL ADVISING

- Convert traditional IRA/401(k) assets into a Roth IRA during a market downturn when asset values are lower.

- Potentially lower tax costs on the conversion due to reduced asset values.

- Growth now happens in the Roth. Future withdrawals from a Roth IRA are tax-free, supporting long-term growth and income planning.

Big Market Losses

SCHOLAR FINANCIAL ADVISING

- **Great Depression (1929–1932)** – Approximately –89%
  The Dow Jones Industrial Average (DJIA) lost nearly 90% from its 1929 peak to its 1932 low.
- **Panic of 1873** – Approximately –86%
  Often considered one of the worst downturns of the 19th century, with historical estimates showing an 86% decline in market value.
- **2008 Financial Crisis** – Approximately –57%
  The S&P 500 fell about 57% from its peak in 2007 to its trough in early 2009 during the Great Recession.
- **Panic of 1907** – Approximately –50%
  A severe banking crisis that saw market indices drop roughly 50% over the course of the panic.
- **Dot-com Bubble Burst (2000–2002)** – Approximately –49%
  Following the peak of technology stock valuations in 2000, the S&P 500 declined by nearly half over the next two years.
- **1937–1938 Recession** – Approximately –49%
  A sharp downturn during the recovery from the Great Depression, with the market losing close to half its value.
- **1973–1974 Stock Market Crash** – Approximately –48%
  Triggered by a mix of economic and geopolitical factors, the S&P 500 lost nearly 48% from peak to trough.
- **Covid-19 Crash (2020)** – Approximately –34%
  In a matter of weeks during March 2020, global uncertainty over the pandemic led the S&P 500 to fall by about 34%.
- **1981–1982 Recession** – Approximately –27%
  A period of stagflation and tight monetary policy saw the S&P 500 decline roughly 27% from its peak.
- **Black Monday (October 19, 1987)** – Approximately –22.6% (in one day)
  The DJIA plummeted 22.6% in a single trading session—the largest one-day percentage loss in history.

Big Market Losses

SCHOLAR FINANCIAL ADVISING

- **Great Depression (1929–1932)** – Approximately –89%
  The Dow Jones Industrial Average (DJIA) lost nearly 90% from its 1929 peak to its 1932 low.
- **Panic of 1873** – Approximately –86%
  Often considered one of the worst downturns of the 19th century, with historical estimates showing an 86% decline in market value.
- **2008 Financial Crisis – Approximately –57%**
  The S&P 500 fell about 57% from its peak in 2007 to its trough in early 2009 during the Great Recession.
- **Panic of 1907** – Approximately –50%
  A severe banking crisis that saw market indices drop roughly 50% over the course of the panic.
- **Dot-com Bubble Burst (2000–2002) – Approximately –49%**
  Following the peak of technology stock valuations in 2000, the S&P 500 declined by nearly half over the next two years.
- **1937–1938 Recession** – Approximately –49%
  A sharp downturn during the recovery from the Great Depression, with the market losing close to half its value.
- **1973–1974 Stock Market Crash** – Approximately –48%
  Triggered by a mix of economic and geopolitical factors, the S&P 500 lost nearly 48% from peak to trough.
- **Covid-19 Crash (2020) – Approximately –34%**
  In a matter of weeks during March 2020, global uncertainty over the pandemic led the S&P 500 to fall by about 34%.
- **1981–1982 Recession – Approximately –27%**
  A period of stagflation and tight monetary policy saw the S&P 500 decline roughly 27% from its peak.
- **Black Monday (October 19, 1987) – Approximately –22.6% (in one day)**
  The DJIA plummeted 22.6% in a single trading session—the largest one-day percentage loss in history.

Invest based on Stats not Emotion

- Continue regular paycheck driven purchases if you are still in the accumulation phase
- Deploy cash methodically through dollar cost averaging as opposed to ”waiting for the bottom”
- For more aggressive tactics:
  - Deploy cash and fixed income at regular intervals based on drop in the S&P500
    - Example: -10%/-20%/-30% from all time highs

Plan Creation and Validation

SCHOLAR FINANCIAL ADVISING

Everyone needs financial advice, but not everyone needs a wealth manager

What gap are you looking to fill? Management or advice?

Maximize expertise for your situation

Who Are We?

SCHOLAR FINANCIAL ADVISING

- Scholar Financial Advising
  - Independent
  - Flat fee
  - Fiduciary
  - No commissions
  - No AUM
  - Expertise and credentials matter

- We partner with physicians to provide them advice while they continue to manage their investments.
  - We provide the roadmap, you drive the car.

Learn More

SCHOLAR FINANCIAL ADVISING

Schedule a no-obligation intro call

www.scholarfinancialadvising.com/welcome

Disclosures

SCHOLAR FINANCIAL ADVISING

Forecasts, projected outcomes or other information generated regarding the likelihood of various investment options are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. This presentation is educational in nature and should not be taken as personalized financial advice. Any examples used are for informational purposes and should not be used as a recommendation. Opinions expressed by the presenter may not represent the opinions of the firm or other advisors at the firm. The firm is registered with the SEC as an Investment Advisor, CRD# 298968. For more information you should view the ADV Brochure disclosures of Scholar Financial Advising. These documents may be viewed online by searching for the firm on brokercheck.finra.org. You may also request these from a Scholar Financial Advising Investment Advisor Representative by calling 336-360-6833 or emailing info@scholarfinancialadvising.com. Neither Scholar Financial Advising or its advisors provide tax or legal advice. If you need tax advice, consult your accountant or if you need legal advice consult your lawyer. Future results are not guaranteed by Scholar Financial Advising or any other party and past performance is no guarantee of future results. This presentation and its contents are the exclusive property of Scholar Financial Advising and may not be copied, distributed, or used for any reason by anyone other than a Scholar Financial Advising Representative.

Scholar Financial Advising, LLC is an independent, fee only, fiduciary advisory firm that charges for financial advice solely on a project or hourly basis.