
FINANCIAL PLANNING

A PEAPACK PRIVATE WEALTH MANAGEMENT PUBLICATION

PLANNING ACTIONS IN A VOLATILE MARKET

As market volatility persists, it is human nature to experience feelings of angst and discomfort as markets gyrate seemingly without end. During such times, the work we conduct with our clients to assess their risk tolerance, time horizon and resources in developing an overall asset allocation affords the opportunity to sustain their planned investment approach during market disruptions in order to achieve their long term financial goals.

With that said, temporary periods of market turbulence can offer individuals the opportunity to consider actions and alternatives that otherwise may be disregarded at higher asset valuations due to taxation and cost efficiency. Some examples of such actions include:

Debt Management

- **Refinance Your Current Mortgage:** The market downturn has also reduced mortgage interest rates to historic lows. Evaluating current mortgage structure(s) and locking in today's low rates could potentially lead to significant savings. Of course, factors to consider include the current rate of interest on any existing mortgage; the expected number of years intending to remain in the home and overall costs of refinancing.
- **Consolidate Debt:** Assess outstanding obligations on high-interest indebtedness such as credit cards, student loans and other personal loans and explore options to consolidate overall bills into lower-interest debt. This can potentially improve cash flow and reduce outstanding balances more quickly.
- **Establish Equity Facility:** Obtain access to instant liquidity by applying for a Home Equity Line of Credit or Investment Credit Line; particularly if given the option to lock in the borrowing capacity at today's rates.

Investment Actions

- **Harvest Tax Losses:** Significant market fluctuations can temporarily reduce the value of select positions in a portfolio to levels below cost basis. The sale of securities trading below acquisition cost can be an effective way to manage income tax obligations associated with current and future capital gains. Securities sold that have perceived long term value may be repurchased after 30 days with no negative income tax implications. As a matter of practice, our investment team reviews the portfolio to identify securities that may be candidates for this strategy.
- **Exercise Stock Options At Lower Prices:** If holding company stock options, either Non-qualified Stock Options (NQSOs) or Incentive Stock Options (ISOs), consider exercising and holding the underlying shares purchased. The "spread" between exercise price and current share price may provide an opportunity to reduce the tax burden as well as an investment opportunity depending upon the long term performance of the underlying stock from the date of exercise. Note, the type of option (NQSO/ISO) dictates the potential tax implications of exercising and should be carefully considered with your tax advisor before taking any action.

Investment Driven Planning

- **Increase Retirement Plan Contributions:** If not already doing so, consider increasing contributions to your 401(k) or other retirement vehicles to maximum allowable levels. Increasing contributions can shelter a greater level of income from current income taxation and increase the investment in securities at today's levels.
- **Create A Retirement Plan:** For those who run a small company or are self-employed, there is an opportunity to form personal retirement plans. These plans typically allow self-employed and small business owners to contribute assets in excess of contribution limits in place for employees participating in an employer sponsored plan.

- **Roth IRA Conversions:** If qualified accounts (401(k)s, IRAs) represent a significant percentage of your investment assets, consider converting a portion of the assets to a Roth IRA. Assets converted to a Roth are considered taxable income in the year of conversion, thus, converting during a time of reduced market values can lower the cost of conversion. In addition, future distributions from a Roth IRA are not taxable income thereby providing tax free cash flows during retirement.

Family Transfers

- **Lifetime Gifting:** If your plans call for making annual gifts to family members, using marketable securities at lower valuations warrants consideration. In 2020, individuals can make gifts of \$15,000 without having it count against their lifetime exclusion amount. With lower market prices, the potential exists to gift more shares within the \$15,000 limit and remove future appreciation from your taxable estate.
- **Contribute To 529 Education Accounts:** In conjunction with the above point, current contributions to a 529 plan will be invested at reduced market levels with the hope of future growth occurring within the account. Also, current rules allow for a maximum contribution of \$75,000 (five years' worth of the \$15,000 annual gift exclusion) perhaps providing a terrific jump start on future education needs.
- **Add To An Existing Trust:** Similar to the lifetime gifting thoughts above, consider transferring additional securities to an existing trust. Transfers done when valuations are lower allows for more assets to be transferred while using less of your lifetime exclusion amount. In addition, future appreciation of the assets will be removed from your taxable estate.
- **Establish A Grantor Retained Annuity Trust ("GRAT"):** This trust is typically established for a term of years during which the Grantor (creator) receives an annual distribution from the trust most often defined as a percentage of the original market value of the trust. At the end of the trust term, any assets remaining in the trust are passed to the next generation often with little or no gift tax implications. An environment of low interest rates and reduced market valuations is ideal for this type of strategy.

Conclusion

Having a carefully considered plan that incorporates all aspects of your financial well-being provides a sound base for navigating periods of temporary excessive volatility which is paramount in achieving individual objectives. If you have any questions regarding the items noted above or want to review your family's financial plan please contact Peapack Private as we would be happy to discuss.



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