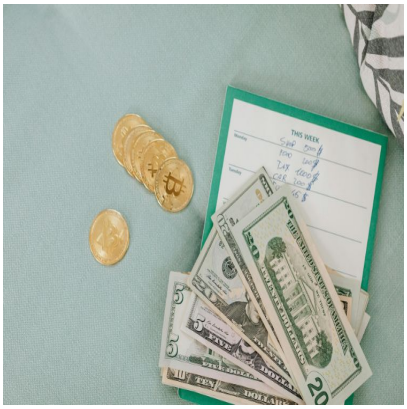


How to preserve wealth in volatile markets with better financial planning

Description

Financial markets are rarely stable. They swing up and down, sometimes quite dramatically. These unpredictable movements often stem from significant events, such as shifts in the economy, major political news, or even developments specific to certain industries.

It is quite common to feel a bit uneasy when your investments fluctuate, even if you have a high-value portfolio. This anxiety can lead to quick, emotional decisions, like selling off investments when prices are low, which may not always serve long-term financial goals.

However, smart financial planning can help you stay calm and protect your money when markets are unpredictable. Here, weâ??ll share a few tips that can help protect and grow your wealth, even when the financial seas are choppy.

#1 Understand Your Risk Tolerance

Gauging how much turbulence you can comfortably withstand is important before you chart any course.

Risk tolerance varies from person to person. Financial goals, time horizon, and age are factors that determine how much risk a person is comfortable tolerating.

Suppose youâ??re a high-net-worth individual. An article published in Funds Society reveals that these individuals are increasingly drawn to private equity and venture capital investments.

Richard P. Slaughter Associates explains that these investments typically involve acquiring shares in established private businesses or funding early-stage startups. The big draw? The potential for returns is substantial.

Private equities, however, have liquidity risk. Investments are generally locked in for several years. Market risk also exists. There is no guarantee that the investment will grow at all.

If you plan to invest in private equities, working with a financial planner who specializes in high-net-worth wealth management would be wise.

These professionals proactively identify the risks, such as legal, market, and operational. Then, they build strategies to mitigate them to help ensure the overall investment strategy contributes positively to your financial health.

#2 Spread Your Investment Across Different Asset Classes

Investing in only one asset class or type is never a good idea. One negative event can wipe out your entire portfolio. Instead of focusing your attention on one investment, spread it across different assets. This strategy reduces the chances of experiencing hefty losses.

If one investment struggles, others in your mix might do well. This helps balance things out. It also leads to smoother ups and downs in your portfolio.

The main types of asset classes you can invest in are stocks or equities, bonds or fixed income, cash, and commodities like oil and gold. Real estate also delivers higher returns that can help protect against losses. Donâ??t just stick to the U.S. market; explore international as well.

For example, investing in the Norwich-New London-Willimantic Metro Area can help grow your wealth. But many European countries, such as Lithuania, Estonia, and Romania, are also promising for property investment.

Donâ??t go overboard, though. You donâ??t need 15 different types of investments; 3 to 5 categories usually do the trick. Diversification within each category matters too. Instead of buying stock in just one company, buy funds that own stocks in many companies across different industries.

#3 Donâ??t Overlook Tax Strategies

Taxes can take a significant bite out of investment returns. Smart tax planning helps keep more of your hard-earned money. This involves understanding how and when taxes are applied to investments, allowing for strategic choices that maximize net returns.

Your tax-advantaged accounts can help save for specific goals while reducing your tax burden, so max them out.

Contribute pre-tax dollars to traditional 401(k)s and individual retirement accounts (IRAs). This lowers taxable income in the current year. The money then grows tax-deferred, meaning taxes are not paid until withdrawals are made in retirement.

You can also make contributions to Roth 401(k)s and IRAs. Unlike traditional accounts, contributions are made with after-tax dollars. The money grows tax-deferred, and qualified withdrawals in retirement are completely tax-free.

There are health savings accounts as well. These offer a unique triple tax advantage. Contributions are tax-deductible, growth is tax-deferred, and qualified withdrawals for medical expenses are tax-free.

Tax rules can be complex. It would be wise to consult a tax professional. They can help you make the best choices for your specific situation.

#4 Automate Your Savings and Investments

When markets fluctuate, it is tempting to make emotional decisions, such as selling when prices drop. Automation helps avoid these impulses. It means setting up money to move automatically, so you do not have to think about it.

Dollar-cost averaging (DCA) is a highly effective strategy for volatile markets. It involves consistently investing the same amount of money into a particular investment, regardless of the price. This strategy lessens the impact of market swings and potentially gets a better average price for your investments.

Setting up automated investments is easier than you think. You can set up automatic transfers from your bank account directly to an IRA.

You could also consider savings, look here for UK rates â?? best ISA rates.

You can also use robo-advisors. These online tools use algorithms to manage investments based on an individualâ??s risk tolerance and financial goals. Once you send the money, the robo-advisor handles the investment and rebalancing.

A tip: aim to invest a percentage of income, rather than a fixed dollar amount. This way, contributions naturally grow as income increases, ensuring the savings plan keeps pace with financial growth.

Volatile markets are a given in the financial world, but you donâ??t have to lose sleep over them.

These steps can help you navigate market swings with confidence. They also empower you to build and preserve your wealth for the long haul. So, stick to them, and youâ??ll stand strong through it all, no matter which way the market winds blow.

Category

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