Dear Client:

If there's one word to describe the performance of the stock market in recent weeks, it's this: volatility.

The funny thing is, nobody ever objects to *upside* volatility! Ever notice that?

So, it's understandable to become concerned when the financial markets sharply decline. And in such times, it's important to remember that volatility is a natural part of owning investments. It's not a reason to avoid them, or to change your investing strategy.

Based on conversations at conferences and recent media interviews, it's clear that many are worried and confused about what they should do. Some have asked if they should sell investments that have fallen in value and buy investments that have performed better. Here's why that could be a bad idea:

From Jan. 1 through the end of October, the Nasdaq composite (an index of primarily growth stocks) gained 8.9 percent. At the same time, the MSCI Emerging Markets Index (an index of emerging-market stocks) lost 17.4 percent. Some might have asked in late October, shouldn't investors get out of emerging-market stocks and into small-cap stocks?

The folks asking this question would be victims of the belief that past performance predicts the future. Of course, that's not true — and November proved it. From Nov. 1 through Thanksgiving, the Nasdaq index fell 6.3 percent, while the MSCI Index rose 1.4 percent — a reversal of how those asset classes had performed during the first 10 months of the year!

This is not an aberration; the same is also true for many other asset classes this year:

- The Morningstar Small Growth Index was up 4.4 percent through Oct. 31 but has fallen 3.4 percent since then.
- The S&P 500 stock index was up 1.4 percent through Oct. 31 but has fallen 2.9 percent since then, wiping out any gain.
- On the other hand, the Barclays Aggregate Bond Index was down 2.4 percent through Oct. 31 but has gained 0.5 percent since then.

This is why it's so important that you maintain your diversified portfolio and avoid the temptation to shift from one investment to another — which is something called "market timing." After all, if in mid-October you had moved out of investments that had underperformed year-to-date and moved into those that had been doing better, you would have done the wrong thing at precisely the wrong time. So much for market timing!

You can be certain that we're constantly monitoring the financial markets for you, and if a change in your portfolio is warranted, we will handle it for you on your behalf.

That said, there actually are some action steps we encourage you to consider. Here are six ideas for you — and you may need to act fast, as the year's almost over!

EDELMAN map managed asset program

1. The maximum you can contribute to your workplace retirement plan is $18,500 ($24,500 if you're at least age 50). If you have not reached the max, you may be able to add more by year-end. Check with your human resources department if that applies.
2. You may be able to benefit from funding an IRA account this year. Contact your advisor to see if you're eligible. You'll almost certainly increase your savings, and you might also lower your taxes! The most that can be contributed is $5,500 ($6,500 if you're at least age 50).
3. Did you open a flexible spending account through your employer at the start of the year? If so, check to see if you still have any money available. It's important that you spend it all before year-end, because any money still in the account is lost forever. Perhaps you could use a new pair of eyeglasses or a visit to the dentist?
4. You may be able to save money while contributing to a great cause. With recent tax law changes, if you are 70 1/2 or older, you may be able to save money in taxes by taking a direct distribution from your IRA and having that sent to your favorite charity. Your advisor can help you with that.
5. If you're thinking of making donations to your favorite charity or religious organization, with some, we are able to transfer securities with capital gains directly to the organization, which could lower your future capital gains taxes *and* allow for a tax deduction. But call your advisor quickly, as it often takes a few weeks to process the paperwork.
6. Make sure your required minimum distributions have been taken from IRAs and any workplace plan if you're in your 70s or older. If you've not withdrawn the right amount from the right accounts as required by the IRS, you could incur a 50 percent IRS penalty (in addition to the taxes owed!).

Your advisor is ready to help and can be reached either by telephone or by email. As always, feel free to contact us anytime.

Enjoy the holiday season, and thank you for being part of the Edelman Financial Engines family!

Regards!

Ric Edelman
Co-founder and Chairman, Financial Education and Client Experience

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