Ameriprise Audiocast
Pivoting your portfolio for the next stages in markets

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Speakers:
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Anthony Saglimbene

Marcy Keckler:
Hello and welcome. I'm Marcy Keckler, vice president of Financial Advice Strategy at Ameriprise Financial. Our conversation today is one of a series of audiocasts that we're doing and you can hear more at Ameriprise.com/marketvolatility. Recently, we invited clients to join a call with some of our experts on the markets and the economy and on financial planning to hear insights on what's happening today and also to get a chance to ask any questions and we got a lot of great questions and in our call, we didn't get a chance to answer all of them. And so today we're going to address a few of them and to do that. I'm joined by my colleague Anthony Saglimbene. Anthony is our global market strategist, as part of our investment research group. Welcome Anthony and thanks for joining me.

Anthony Saglimbene:
Hey, Marcy, thanks for having me.

Marcy Keckler:
So Anthony, let's start our conversation with getting a broad view from you and your colleagues, who are investment experts on how you see the markets and the economy and what the future might hold.

Anthony Saglimbene:
Yeah. Yeah. Marcy, that’s a great question and I, I think it starts with kind of formulating a thesis and the popular thesis’ is out there really revolve around how the market and the economy are going to respond to America's reopening. And one of the, one of the thesis’ that are out there right now is that the current market is fairly priced and the economy will continue to perform better each quarter. It'll take a longer period for the markets and the economy to recover. I think another thesis suggests that there will be an uneven opening of America and you will see the markets and the economy respond in an uneven and choppy manner and it’ll take longer for stock prices to recover. And then finally one of the predominant thesis is out there is that you'll see a v-shaped recovery where the economy market recover very quickly after America reopen and stock prices will perform very well. From our perspective, we kind of take that middle ground and suggest that the economy and the markets will take time to recover and we'll see a second-half recovery, but it could be uneven across the country, which means that you really need to focus on more quality type investments in your portfolio given that the second half will improve but it may not be as good, as what the market is pricing in currently.

Marcy Keckler:
Thank you, Anthony, that's such a helpful perspective. And that leads me to one of the questions that we did get from a client that I would really appreciate your thoughts on and the question is if you want to add investments to your diversified portfolio, what do you suggest investing in at this time, given the volatility of the market and you know, obviously Anthony from your perspective given the outlook that, that you have. What are your thoughts on that idea around investments to consider?

Anthony Saglimbene:
Yeah. I think that's a great question and for us, it really revolves around just focusing on quality companies, companies that have very strong moats. They have strong balance sheets. Lots of cash, low debt. Stable dividend is a plus. You can find those companies across industries today. But I think when we look at our tactical views, what where do we think the opportunities are over the next 6 to 12 months, it likely lies in consumer discretionary companies that could see more positive opportunities such as malls and retail shops are starting to open up. It also falls in healthcare, which is a more stable sector with good secular trends. We think those two sectors could see opportunities over the next six to 12 months and we're also favorable to a you know, equal weight perspective on technology. That is a very large component that the accounts for 25% of the S&P 500. Some of the large tech companies have actually seen their business trends improve over the downturn and this should be well-positioned when the, the economy starts to reopen a little bit more and we would focus our investments on the U.S. We would look at the U.S., as a more stable, a better opportunity set of, of quality companies than say in international markets. And then lastly on the fixed income perspective, we would keep fixed income high in credit quality that means lots of government and high-quality credit in the portfolio today.

You know, Marcy, I'm kinda interested in your perspective. I mean, I know from a financial planning perspective you talk to retirees a lot. I mean that when you kind of consider this topic of where to invest and how to position today, what are some of your views on, on that?

Marcy Keckler:
One of the things I think it's really important to focus on as a core financial planning principle is having a cash reserve and for people who are in their working years and saving years. We typically think about having three to six months of your living expenses in a cash reserve or a kind of a rainy day fund and you know, certainly the current pandemic environment has put the importance of that in a spotlight as we've seen people being furloughed, being laid off or even just seeing a reduction in their income if they own a business or they're a consultant. And so it's important, you know across life stages but to your question on retirees, we typically would recommend that a retiree have a somewhat larger cash reserve something like one, two, maybe even three years of their living expenses that are really liquid in you know a cash position or something that's quite easy to access because that can prevent a retiree from having to pull money out of investments that they have in the market in order to fund living expenses. And so I think that's one of the key things for retirees is to ensure you have that cash reserve and as you

think about portfolio repositioning that if you didn't have the amount that you now want to consider having in the future, that's something I think your advisor can really help you with is looking at the amount of that cash reserve.

And that leads me, Anthony, to a question back to you about portfolio repositioning. We know that it's one of the things people are thinking about we've seen the market dip, have some recovery, but as you just suggested there may be some choppiness in the future. What does that mean in terms of portfolio repositioning strategies for clients and how they might want to talk to their advisors, Anthony?

Anthony Saglimbene:
Yeah, you know, I think a rebalancing strategy is very important. I think for most clients, semi-annual to annual rebalancing strategy works. I think for clients that are looking for a little bit more active management, maybe a quarterly rebalancing strategy helps but I, I think you need to have some type of rebalancing strategy in place. And even if you rebalanced your portfolio in January the market fluctuations likely we may have caused your portfolio at least to be reviewed because maybe you need to rebalance again. A good general rule of thumb is if any of the securities or allocations have changed from your target strategy by 5 or 10 percent, you may want to consider rebalancing and I think there's obviously tax consequences, your advisor as tools and can help you with that. But I would definitely give your portfolio a diffe- another look to see if you need to rebalance. And then if you're worried about some of the investments being down in your portfolio, I really wouldn't worry too much about that. I think a good investment strategy leans on portfolio management that, you know, takes into account the market environment and makes small adjustments over time. So I, I think if you have investments in your portfolio that don't fit, at least with our current thesis, you may want to consider talking about those investments with your advisor. And if you have investments in your portfolio that that may benefit from this type of market environment or even as more of the country starts to emerge from a down, if you have good quality companies, both types of companies should continue to perform well, you may want to allocate more to those types of companies. So I think definitely reviewing your portfolio and not being afraid to make changes is very important in this market environment.

Leaving me a question to, to you, Marcy, I mean I know, I know advisors help with the long-term planning aspects for clients but on a shorter-term basis, what are some of the, the changes that you see clients could be making today?

Marcy Keckler:
It's a great reminder that having a long-term horizon is really important, but also looking at the near term and, and that's really important that advisors help clients make decisions based on facts and objective information, but in the near term, I think there's an opportunity for clients and advisors to talk together about whether converting some of your existing retirement assets from a tax-deferred account like a 401(k) or an IRA, which is typically where people have the concentration of their retirement assets, and potentially converting some of that into a Roth IRA or taking advantage of the Roth option if their 401(k) plan has it and they're still working, that really is an opportunity to

think about giving yourself control over your tax situation during your retirement years. If you did a Roth conversion, you would take some portion of your tax-deferred account convert it into a Roth IRA, which would mean paying taxes now, but it might be a lower tax bill if that account value has declined. So it can be an opportunity to pay some of the tax now when it might be a little bit lower and then have more control over your tax exposure during retirement because the money you take out of those Roth accounts is going to come out tax-free during retirement. So that's an opportunity that I think advisors and clients might want to take advantage of and that leads me to a question back to you around portfolio adjustments. You touched onthis earlier, Anthony, but interested in any further thoughts you have on investment sectors to consider. You mentioned some earlier, but any further thoughts on how clients might think about sectors and, and topics they might want to discuss with their advisor.

Anthony Saglimbene:
Yeah. Yeah, very I would start by looking at investments particularly companies that were performing well in dominating their interests or their industries prior to, to the COVID-19 shut down in the economy. Those are the types of companies as I mentioned before are probably going to be in a good position when, when the market reopens so, you know, those quality-based companies should perform well in a down market, they should perform well or relatively well in, in an upmarket, they may not keep pace with some of the riskier or more economically sensitive areas of the market, but I think they can act, as a good foundation in your portfolio for a lot of different market environments. I, I think if you see the economy recover quicker, then what I think most investors anticipate today, then I think highly cyclical sectors of the economy perform well. We've seen them start to pick up steam, when we see news that a vaccine or a treatment is positive news on that front. You see those more cyclically or economically sensitive sectors perform well. So recently we've seen a pickup in energy companies and banks and in automobile producers and capital goods and real estate and consumer retailing stocks do well when the anticipation is that the economy is going to be open quicker. If we see a more uneven and choppy type of market environment, which is what we think we'll see over the next few months, you're going to want those quality-based companies in your portfolio. So from our perspective, I would lean heavily on your quality companies across industries. Advisors have resources and research to help you do that.

Marcy Keckler:
That's great. Thank you, Anthony, and I will just say in closing that I really appreciate your sharing your thoughts and just to remind all of our clients listening that as Anthony said your advisor has great tools and resources to help them provide you with objective information to make decisions both near term and for your long-term financial situation that take into account your goals, your dreams, your personal situation and to encourage all of our clients to connect with your advisor and talk about opportunities and talk about repositioning and make sure it's all anchored in your advisor’s understanding of what's important to you. So with that, I'll say thank you Anthony for joining me. Thanks to everybody for listening and I hope everyone continues to stay safe and stay well.

Finally, before we leave I'd like to share some important disclosure information.

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