Weathering the Storm: Building a Financial Moat in Times of Job Loss and Market Volatility

By Geoff Burroughs, CFP®, CDFA®

In today's uncertain economic climate, financial stability is more than a goal—it's a defense mechanism. These days, market volatility is a given, layoffs can arrive unexpectedly, and personal upheavals such as a layoff or divorce can shake even the most carefully crafted financial plans.

However, what if the storm has arrived and you are not as prepared as you want to be?

As a Certified Financial Planner™, I've worked with clients navigating the trifecta of uncertainty: job loss, sudden life transitions, and erratic market behavior. Here are some ideas of how to weather the storm while shielding yourself from making long-term damage to your financial future.

1. Put your life in a timeline and build a moat for the short-term.

Market volatility is easy to talk about, but when it happens, it can feel overwhelming. In times like this, the last thing you want to do is panic.

So, what if you are feeling unprepared for the current storm we are in?

During every major financial downturn, I have people tell me, "I just can't afford to lose another dollar!" "If the market goes down any more, I will have to sell!" "I'll just sell now and get back in when the market gets better." If this is you, it's time to build a moat.

A financial moat is a set of safeguards designed to protect your economic wellbeing from life's inevitable disruptions. Think of it as a buffer zone—a mix of cash reserves, and predictable assets, that give you room to breathe when your income or assets are under attack. Ideally you have built this beforehand, but if you haven't, there is still hope.

Step 1: Don't just sell everything because you are scared, this will lock in your losses. Start by determining your monthly expenses.

Step 2: How much of those expenses do you need to cover with your assets? Maybe you are ok as long as you have your job, but if you lost that job, you would have to look to your investments.

Step 3: Build a moat to protect those expenses.

What does that look like? Instead of selling everything, think of buying yourself time by shifting your investments as follows:

- Move 6 to 12 months' worth of expenses into an easily accessible cash reserve.
- Add predictability by investing in a bond ladder that covers 3-5 years of your expenses.
- Leave the remaining amount in your growth investments or current allocation, so that they will bounce back when the market does.

The idea is to shift enough investments to provide a 4-6 year cushion and avoid an overreactive leap of selling everything and locking in your losses.

2. Cash Flow: The Lifeblood of Your Financial Defense

Is the only option to build a moat? No. There are several ways to boost liquidity and improve cash flow, especially after a layoff or sudden reduction in income:

- **Cut or pause discretionary spending**—Dining out, streaming services, and non-essential travel can be quickly paused to free up capital.
- **Invest in income producing investments**- Investments don't only have to be for growth, some can be for income while others can be for growth and income. So, instead of selling all of your growth investments, maybe you can move some to dividend paying stocks and collect the dividends while allowing the principal to remain invested.
- **Tap into flexible assets**- If there is a bigger need than what you have available outside of your retirement accounts, Roth IRA contributions may be available to you, but only after consulting your advisor to avoid penalties.

By streamlining expenses and improving inflows, you can stretch your reserves and stay afloat longer, avoiding desperate moves causing permanent damage.

3. Market Volatility: Opportunities may arrive, but tread carefully

Volatility is unnerving even in the best of times, but it can be especially paralyzing when your nest egg is suddenly under attack.

There are some areas to be very careful with:

- Margin calls can be devastating during downturns. Borrowing against securities may seem harmless in a bull market, but a dip in value can force you to sell at a loss.
- Illiquid assets—like non-public Real Estate Investment Trusts (REITs) or private equity—although they may be a good investment, they may not be sellable in time of need. Make sure you are accounting for them accordingly.
- Speculative investments like leveraged exchange traded funds (ETFs) or options can magnify losses and are best avoided during uncertain times unless you have the expertise and stability to manage them.

Don't go sleep at the wheel, because there are opportunities out there:

- **Tax loss harvesting:** Selling specific investments at a loss can be used to offset gains in the future. So, if you have some losses (in non-retirement accounts), you may want to realize them by selling them, but reinvest the proceeds into a similar, but different investment.
- **Invest for the long-term:** If you have been waiting to put some money to work, the best time is when markets are down, as long as you have a long enough time horizon. This can be especially good opportunities to put money away for college if you have young children, by contributing to a 529 plan. If you have a retirement plan at work, see if you can afford to increase your contributions.
- **Tactical adjustments:** Even though you don't want to just sell indiscriminately, there may be some adjustments you can make. Consider alternative investments ranging from investments that may do well in a volatile environment or look outside of traditional investments to things such as gold. Everyone situation is different, so talk with a professional before investing in something you are not familiar with.
- **Inherited IRAs:** If you inherited an IRA, you are required to take annual withdrawals. Depending on when you inherited the IRA, it may make sense to accelerate your withdrawals when the investments are down, reducing your future tax obligation, especially if you plan to reinvest the funds.

4. Life Transitions: When Your Timeline Suddenly Changes

A layoff, divorce, or unexpected illness can dramatically accelerate your financial needs. What was once earmarked for retirement may now be needed for next month's tuition or a new home down payment. When markets are volatile, it puts even more stress on the situation.

Here's how to pivot smartly:

- **Reassess your time horizon—**If you need cash sooner, rebalance accordingly, but again, think in a timeline. Needing some cash sooner doesn't necessarily mean everything needs to be made into cash.
- **Avoid high-risk strategies** like margin loans or speculative options, which can backfire in volatile markets.
- **Understand tax implications—**Selling non-retirement assets can trigger capital gains. Talk to an accountant about taxes, and factor it into your cash planning so you're not caught short come April.

Final Thoughts

When financial chaos occurs, there tends to be a lot of "woulda, shoulda, coulda" going around. However, you are where you are, the question is, what to do next? There are many different approaches, but a few major choices to avoid. Don't panic and don't make a bad situation worse. Instead, take a measured approach by evaluating both the short-term and long-term, and focus on weathering the storm. Remember, this is just one chapter and not the whole story. If you want to talk about your specific situation, feel free to contact me.

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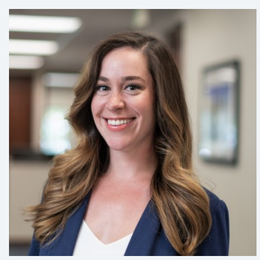
We take a collaborative approach to help clients navigate complex financial situations and plan for the future. We specialize in integrated financial planning, investment management and divorce financial services.

Geoff Burroughs
CFP®, CDFA®

Director,
Financial Advisor

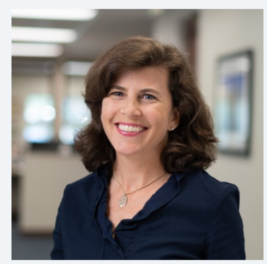
gburroughs@harborllc.com
410-659-8905



Emily Allison
CRPC®

Associate Vice President,
Senior Client Relationship Manager

eallison@harborllc.com
410-659-8924



Katrina Kunkler

Director,
Chair of Investment Committee

kkunkler@harborllc.com
410-659-8909

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