

## Keeping All This Volatility in Perspective

These recent ups and downs are reminiscent of past Wall Street swings.

Fall might be anything but calm on Wall Street. Volatility is back, in a big way: the CBOE VIX has risen more than 105% since the end of July. Additionally, 11 of the 15 trading days ending September 9 were “all or nothing” days in which more than 80% of the S&P 500 moved either higher or lower. In the last 25 years, the index has not had a 15-day period like this.<sup>1,2</sup>

Contrast that with the first 159 trading days of 2015, in which just 13 such days occurred according to Bespoke Investment Group research. In fact, during the first half of 2015 the Dow Jones Industrial Average was never more than 3.5% up or down YTD, on pace for the most placid year in its history.<sup>2</sup>

Writing in the *Financial Times*, the noted economist and portfolio manager Mohamed El-Erian recently identified a few factors driving these market swings – factors that may not subside anytime soon. Fundamentally, he cit-

ed the “spreading economic slowdown” in China and other emerging markets “eroding a fundamental underpinning of high and stable asset prices” – and bursting some asset bubbles in the process. Markets can be roiled with the emergence of “major global challenges away from the direct reach of the U.S. Federal Reserve and the ECB,” he adds, as too many (institutional) investors look to central bank activity for either direction or reassurance.

So, this turbulence may persist for several more weeks or months. How does an investor cope with it? It helps to put all of this recent volatility into perspective.

Remember that historically, the ups of the market have outweighed the downs. If your time horizon is relatively long, this particular fact may provide encouragement: as Ibbotson notes, since 1926 there has never been a 20-year stretch in which a diversified portfolio invested in large U.S. firms has had a negative inflation-adjusted total return. From 1926-2014, such a model (*continued on page 2*)

## Estate Planning After a Second Marriage

*Special considerations for a complex situation.* Marrying again makes estate planning more involved. How do you provide for everyone you love? Should you provide for everyone you love? How do you arrange to transfer wealth in a way that won't hurt the feelings of certain heirs?

If you have not planned your estate yet, take inventory. Spend a half-hour and jot down the assets you own, major and minor. Who should own these assets after you die? Your spouse should do this, too – and you should talk about your preferences. It may not turn out to be the easiest conversation, but agreement now may preclude family squabbles and legal challenges down the line. (If you have a prenuptial agreement in place, you may have already discussed some of these matters.) You should also consider two scenarios – what happens if you die first, and what happens if your spouse dies before you do.

If you and/or your spouse have children from prior marriages, there may be some dilemmas for each of you. If you die, there is a real possibility that your current husband or wife will not elect to provide for your children from past marriages. So what might you do to prepare for that possibility? You might make a child the primary beneficiary of a life insurance policy, or set up a trust for your kid(s), or place certain real property under joint ownership with a child.

If you have already written a will, it will probably need revisions. They could be considerable. You want to be extremely specific about which heir gets what; you need to state bequests convincingly, because the more convincing your bequest, the less ambiguity. (*continued on page 2*)



## Keeping All This Volatility in Perspective *(continued from page 1)*

portfolio (with dividends encompassing roughly 40% of the total return) yielded approximately 10% a year on average.<sup>3</sup>

These recent ups and downs compare to others. On August 24, the S&P 500 lost 3.2% and was down more than 4% during the course of the day. That was quite troubling, but not quite extraordinary: it was the fifty-fifth day since 1983 in which the broad benchmark had dropped 3.5% or more in a trading session.<sup>3,4</sup>

How has the S&P recovered from days like these? Historically speaking, it has recovered more often than not. Looking at the 12-month periods after the preceding 54 such trading days,



there were 45 year-over-year advances and 9 year-over-year retreats. How far did the S&P fall, on average, during those 12-month retreats? The answer is 7.7%. How high did it rise, on average, during those 45 annualized ascents? A remarkable 27.6%. So while history tells us nothing of tomorrow, it does seem that the S&P has recovered amazingly well from the bulk of its major one-day drops in the last 32 years.<sup>3</sup>

After a long, steady ascent, it is easy to become lulled into thinking that the market only goes up. We all know differently, but even so it can be a rude awakening when the major indices rollercoaster or plunge. Even so, we should be patient rather than let emotion take over. As the late Paul Harvey said, "In times like these, it helps to recall that there have always been times like these."<sup>5</sup>

### Citations

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- 2 - [cnbc.com/2015/09/10/this-market-is-setting-a-wild-volatility-record.html](http://cnbc.com/2015/09/10/this-market-is-setting-a-wild-volatility-record.html) [9/10/15]
- 3 - [tinyurl.com/oksgh26](http://tinyurl.com/oksgh26) [8/25/15]
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- 5 - [content.time.com/time/arts/article/0,8599,1882444,00.html](http://content.time.com/time/arts/article/0,8599,1882444,00.html) [3/1/09]

## Estate Planning After a Second Marriage *(continued from page 1)*

How up-to-date are your beneficiary designations? Out-of-date beneficiary decisions are an Achilles heel of estate planning. Be sure to review them; you may want to revise beneficiary forms for retirement plans, investment accounts, and insurance policies.

As you consider these revisions, pay particular attention if you have been divorced. Divorce may actually preclude you from changing beneficiaries in certain cases. Turn to a lawyer and show the lawyer a copy of your divorcee decree; ask if revising your beneficiary designations will violate it. Should you be unable to make beneficiary changes to your life insurance policy, you may want to buy another one in consideration of your new spouse.<sup>1</sup>

Take a look at irrevocable trusts. They can be used to provide for your spouse as well as your kids. Some people establish a separate property trust to provide for their spouse after their death while di-

recting most or all of their real property to their children.<sup>2,3</sup>

Alternately, parents create irrevocable trusts to direct assets to particular children. They are attractive estate planning vehicles for a number of reasons. A trust agreement is a private mechanism for wealth transfer, while a will is a public document (and some parents who have remarried would rather their wills not be made public). Assets within irrevocable trusts are shielded from creditors, and also from inheritance claims of spouses of the adult children named as heirs. An irrevocable trust represents a "finalized" estate planning decision, one that ensures that particular assets transfer to a parent's biological children. Irrevocable trusts are also rarely undone. It typically takes permission from beneficiaries (and a judge) to reverse them.<sup>4</sup>

Those aforementioned pre-nups can play an estate planning role as well. They allow

you to designate personal assets (such as assets within a college savings account) for existing rather than future children. Post-nuptial agreements (similar to pre-nups, but drafted after a marriage) can also accomplish this. Some states do not view pre-nup and post-nup agreements as legally valid, however – and sometimes carrying out the terms and conditions of these agreements is up to a judge.

Be sure to consult legal and financial professionals. When estates become this complex, collaboration with professionals having a thorough understanding of estate planning and tax issues is essential.

### Citations

- 1 - [elderlawanswers.com/redo-your-estate-plan-when-you-remarry-5477](http://elderlawanswers.com/redo-your-estate-plan-when-you-remarry-5477) [12/29/14]
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