

# WEALTH WISDOM

BY HUDSON FINANCIAL SERVICES



## RISK MANAGEMENT

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*Navigating Risk: Managing Effectively in Uncertain Times*

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Managing risk is a fundamental part of our lives and certainly something we take seriously as it pertains to financial planning. Over the past five years, we've faced unprecedented challenges—ranging from the global pandemic to inflation, interest rate fluctuations, and political uncertainties. Through it all, the importance of having a solid risk management strategy has become even more apparent. And as we move through yet another election cycle, we want to take a moment to discuss how we can continue managing risk effectively while keeping our long-term goals in focus.

### 1. WHAT DOES RISK MANAGEMENT MEAN FOR YOUR FINANCIAL PLAN AND YOUR PORTFOLIO?

Risk management is about preparing for the unexpected and making sure that no single event can derail your financial progress. This doesn't mean eliminating risk entirely, but rather, managing it in a way that keeps your portfolio resilient in the face of change.

These strategies we use to do this include:

- **Diversification:** By spreading your investments across different asset classes—like stocks, bonds, real estate, and alternative investments—we can reduce the impact of any single market event.
- **Asset Allocation:** We tailor the mix of investments in your portfolio to match your risk tolerance and goals. For some of you, that might mean a more conservative allocation, while for others, a more growth-oriented approach makes sense.
- **Rebalancing:** We periodically review your portfolio to ensure it's aligned with your original strategy. If market shifts push your portfolio out of balance, we'll make adjustments to keep risk at the right level.
- **Liquidity Management:** We build into financial plans and encourage all clients to have enough cash or liquid assets on hand for emergencies or market downturns, without needing to sell investments at a loss.

These are just a few examples of how we approach risk management, but they all share the same goal: to keep your financial plan on track, no matter what's happening in the markets or the world.



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## **2. LESSONS FROM THE PAST FIVE YEARS: MANAGING UNCERTAINTY**

### **The COVID-19 Pandemic and Market Volatility (2020)**

The COVID-19 pandemic was a perfect example of how quickly markets can shift. In early 2020, we saw the S&P 500 drop by over 30% in just a few weeks. It was a frightening time for many investors. But those of you who had a diversified, well-balanced portfolio managed to weather the storm.

We emphasized staying the course, even when the news was alarming. By not reacting emotionally and sticking to our long-term plan, you were able to benefit from the recovery, as markets rebounded faster than many had anticipated. This period highlighted the importance of liquidity—having cash on hand meant that we didn't have to sell investments at the bottom, allowing us to take advantage of the market's eventual rebound.

### **Inflation and Interest Rate Hikes (2022-2024)**

More recently, we've dealt with rising inflation and the Federal Reserve's response—aggressive interest rate hikes. These rate increases have been challenging for both the stock and bond markets. For those of you who were heavily invested in bonds, we adjusted strategies to minimize losses, often by increasing allocations to short-term bonds and money markets.

Similar to the pandemic though, the more patient and confident you were in your long term plan, the more likely you were able to remain invested and reap the benefits of the stock market rebound in 2023 and the first three quarters of this year.

## **3. ELECTION YEAR & MARKET VOLATILITY: HOW SHOULD WE PREPARE?**

Election years have historically been periods where we see heightened market fluctuations. As we move through this election cycle, we want to remind you of a few key points about how elections can affect markets—and how we can manage through them.

### **Don't Let Politics Drive Your Portfolio Decisions**

It's natural to feel concerned about how elections might impact your investments, especially when it feels like so much is at stake. You might be tempted to make changes to your portfolio based on predictions about who will win or lose. But, as we've seen time and again, trying to time the market based on election outcomes is rarely a good strategy.

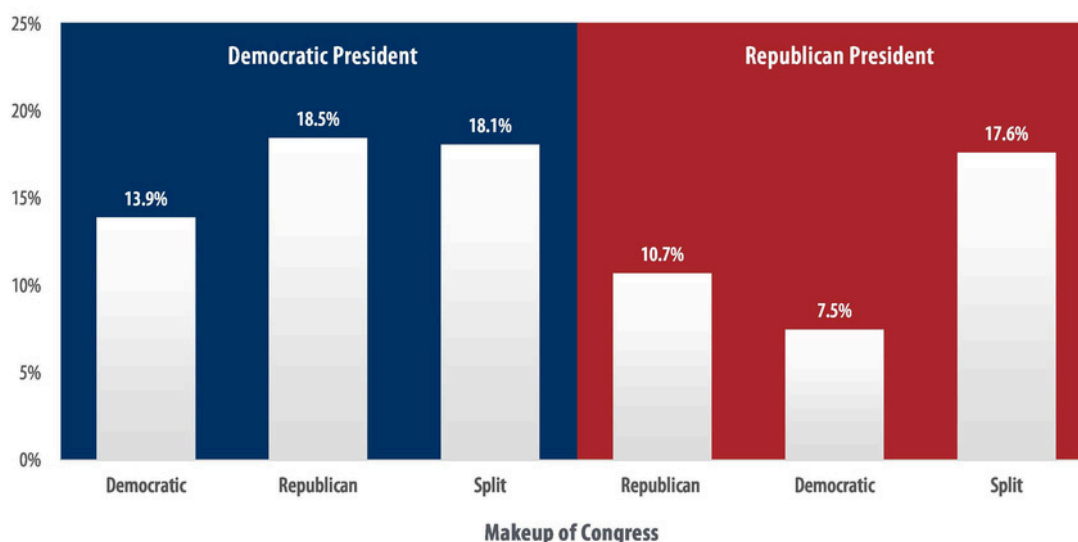
For example, during the 2020 election, many investors feared that a particular result would send the markets into a tailspin. Yet, even with delayed election results and significant political division, the markets performed well after the election. This is a reminder that while elections can cause short-term volatility, they don't typically change the long-term trajectory of the market.

Our job is to keep your focus on the long-term goals we've set together and not get caught up in short-term political noise. A critical reminder we have for all clients is to refrain from voting with your portfolio but instead cast your true ballot on election day.

## S&P 500 Index Performance by President and Makeup of Congress



Average S&P 500 Index Total Return Annual Performance 1949-2023



## 4. CYBERSECURITY: REMAINING VIGILANT IN THE DIGITAL WORLD

In today's increasingly digital world, cybersecurity is essential to protect your financial well-being. Cybercriminals continuously evolve, targeting sensitive personal and financial information to commit fraud or identity theft. For financial planning clients, safeguarding digital assets is as important as managing physical wealth.

Start by using strong, unique passwords and enable multi-factor authentication (MFA) on all financial accounts. Regularly update your software and devices to ensure you're protected from the latest threats. Be cautious of phishing scams—emails or texts posing as legitimate financial institutions often try to steal your personal data.

Monitor your credit and bank accounts for any suspicious activity, and consider using a credit freeze to prevent unauthorized access to your credit report. Keep sensitive documents stored securely, both online and offline, and limit the sharing of personal information on social media.

By remaining vigilant and taking proactive steps, you can protect your financial future from cyber threats, ensuring your assets and information are safe. Cybersecurity is not just a technical issue—it's a key component of your overall financial security strategy.

## **5. COMMUNICATING THROUGH UNCERTAINTY**

One of the most important parts of managing risk is keeping the lines of communication open. During times of uncertainty, whether it's market volatility or political change, it's natural to feel concerned. Our role is to help you understand how we're managing these risks and ensure that you feel confident in the steps we're taking.

We'll continue to review your financial plan regularly, updating it to reflect any changes in the market, tax laws, or your personal circumstances. If you ever have concerns or questions, don't hesitate to reach out. Together, we'll navigate whatever comes our way.

## **6. STAYING FOCUSED ON YOUR LONG-TERM GOALS**

It's important to remember that market volatility, while uncomfortable, is a normal part of investing. By sticking to the risk management strategies we've built into your financial plan, we can keep your portfolio strong in the face of whatever challenges come our way.

Election cycles, inflation, interest rates, and geopolitical events will continue to create noise in the markets. But our focus remains the same: helping you achieve your long-term financial goals. By staying diversified, making smart adjustments when needed, and not letting short-term events derail our strategy, we can manage risk effectively and keep you on track.

As always, Our team is here to guide you through every step of the way. Let's keep working together to ensure that your financial future remains bright, no matter what the markets—or the headlines—throw at us.

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