<u>Episode Title:</u> Making your money make money

<u>Episode Description</u>: We dive into market volatility, alternative currencies, and inflation hedges, *and* examine the differences between market speculation and economic reality—and what it all means for investors like you.

Custom music by [Davis Jones.](Davis Jones)

<u>Transcript:</u>

Alex Lieberman (00:04):

Hey everyone. I'm Alex Lieberman, co-founder and executive chairman of Morning Brew. This is season three of Fresh Invest, your favorite investing podcast, sponsored by Fidelity Investments and powered by Morning Brew. Today, we're going to be exploring a topic that's been on everyone's mind, how investors can navigate current market conditions to maximize their portfolios. Let's dive in.

Last week, we discussed whether or not we're on the edge of a recession. And what we uncovered was that while inflation is up due to things like geopolitical unrest and macroeconomics, there are actually more opportunities to invest in stocks and other asset classes had to discount. Most importantly, we addressed how investors can prep their portfolios for, well, anything. Today I'm excited to welcome Leanna Devinney, VP branch leader and certified financial advisor at Fidelity to explore what market fluctuations mean for your portfolio, how the market is influencing things like direct indexing, and if that even makes sense right now. We'll also take a look at inflation protection methods and analyze investor attitudes in comparison to what's actually happening and how the two interact with each other.

Welcome, Leanna. So glad that you're able to join us today to chat about what's happening in the markets.

Leanna Devinney (01:26):

Thank you so much. I'm excited to be here.

Alex Lieberman (01:28):

So let's start with laying the groundwork. Could you explain who you are and talk a little bit about what you do at Fidelity?

Leanna Devinney (01:34):

Absolutely. So my name is Leanna Devinney. I am a vice president and branch leader for Fidelity Investment. So I lead a team of financial advisors who help individuals and their families build and implement financial plans to really help achieve the goals that they have. I'm also a certified financial planner. And prior to my current role, I did work one on one with investors as a financial advisor.

Alex Lieberman (01:59):

Love it. So before this season launched, we had asked members of the Morning Brew community, how they felt about the financial topics that we were covering this season. And they shared whether they're bullish or bearish. And I'd love to get your take on whether you're bullish or bearish on buying the dip.

Leanna Devinney (02:17):

So it really depends on how close or far you are from your financial goals. So I am bullish on investing your money based on your risk tolerance, your timeframe, your whole financial picture. So I think it's really important to build an investment strategy that's aligned to the goals that you have, and it's not contingent on the day to day or even month to month fluctuations the market can see. So I've really found over the years, investors that have a strategy aligned to their specific goals are able to feel more confident in investing, especially in turbulent times. And they will buy the dip through investing and they set up healthy investor habits like dollar cost averaging or setting up automatic investments.

Alex Lieberman (03:01):

Love it. And for a lot of people, it's definitely a scary time right now with what's happened in the markets over the last few months. So from your perspective, what are some strategies that investors can use to build up their investing confidence with what's happening in current markets?

Leanna Devinney (03:17):

The first thing we talk about is having an emergency fund. Those that invest with confidence do have that emergency fund set aside. And a general point of view we speak to is having three to six months of your essential expenses in a high yield savings account that's accessible, flexible, and liquid. And having that rainy day fund really removes the emotional pressure that we can feel when there's market volatility for the other investments that we have, so that your intermediate term goals or long term goals that's invested, you can feel confident in having that diversified strategy aligned to that specific goal, knowing that you have the flexibility and rainy day fund if something comes up,

Alex Lieberman (04:02):

There's an adage that a lot of FAs will say to their clients and to just retail investors in general, which is when thinking about how you put your money to work and the strategies that you deploy, you should be basically saving yourself from yourself. So what does that mean when it comes to investing and deploying your capital?

Leanna Devinney (04:21):

So investing is emotional. It's our relationship with our money. So it's natural to feel unsettled when we see our money fluctuating and Fidelity does a third party study every year through Dow Bar. And it shows the analysis of investor behavior and it compares over a 20 year period. It shows the average investor compared to the stock market and it uses the S&P 500 as a benchmark. But every year investors come back consistently lagging the index and it's all due to that investor behavior. So when we reference saving yourself, it's because many investors will want to chase the high performance or higher risk investments when the market's up. Or on the flip side, during market downturns, we naturally move to lower risk investments and we may miss opportunities. So really having the plan, that's the easy part, having that investment plan, but sticking with the plan is the hard part. And that's what we talk about saving yourself from yourself.

Alex Lieberman (05:25):

Yeah. Remaining unemotional, where inherently there are going to be moves in the markets that impact the value of your portfolio, and inevitably have an impact on how you feel about things, but still sticking to the plan you set to your point is the name of the game. Now, I want to talk about inflation because other than the word interest rates, I would say it's the most important I word that has been used in the last however many months, largely because inflation peaked over the last few months or potentially peaked at 9.1% was one of the prints over the last few months. How should retail investors be thinking about hedging their portfolio against higher than average inflation?

Leanna Devinney (06:08):

Yeah. So this is the number one question that we get now on inflation. And the good news is when we plan and help invest, we're always thinking of inflation and we are in unprecedented high inflationary period. We don't expect that's going to continue over the long term, but we do know inflation is always a risk when it comes to investing. So the first component, when we build plan is we want to take a look at your asset allocation, and then we can make subtle tweaks and add some inflationary hedges within. So for example, you have a portfolio of stocks and bonds per se. We're going to look at equities because we know just the purchasing power stocks keep pace with inflation. Other ways that we can add some subtle tweaks to those inflationary hedges are through REITs, real estate investment trust. Those come up often as well as commodities.

And then on the safer side, TIPS, treasury inflation protected securities. So these are all things that can be incorporated into your portfolio to help fight inflation. But it's another area of opportunity to assess the amount of cash and liquidity you have because too much cash is not keeping pace with inflation. It can impact your purchasing power over time. We're seeing this even at the grocery store, we're certainly seeing this in gas prices. So outside of your emergency fund, if you can invest, that's going to set you up for success to keep up with inflation over the long run.

Alex Lieberman (07:38):

And just from your perspective, because you named a few of these different instruments that a retail investor should be at least considering when thinking about hedging for inflation. In their portfolio, you mentioned TIPS, you mentioned commodities, you just mentioned straight up equities. If an investor had to choose between these assets that you just mentioned, how should they be thinking about basically the purpose that each of these serve in their portfolio?

Leanna Devinney (08:04):

So I'd say, again, it all comes back to the goals that you have. So to your point, TIPS versus equities, those are two very different things. One is growth oriented, one is more protection and fixed. So it all goes back to those goals. So if I am longer away from the goals that I have, let's say it's retirement, hopefully it's 20 plus years away, I'm likely going to invest more in those growth vehicles. And I'm going to look towards equities to help keep pace with inflation. Those that are closer to their goals, shorter time horizon or intermediate, or just don't have the risk appetite, we may look for those safer vehicles in that inflationary protected securities, such as TIPS as an example.

Alex Lieberman (08:48):

Super helpful. Now, as we talk about what's happening in the market, versus the way that investors are behaving, what would you say are the major differences that you're seeing between investor sentiment and then what's actually happening?

Leanna Devinney (09:02):

So this year I have gotten a lot of investor fatigue as part of the sentiment. And I think really it comes down to, this is the first time in a long time that we've had this extended bear market. So January 4th was the high. Now we're eight plus months in and for many it's their first time investing. And we even look back to 2020, well, this was a global pandemic and the stocks dropped. It was a shorter period of time.

Before that 2018, we had volatility towards the end of the year in December, but it was a six week period of time. So I am sensing some more of that investor fatigue and questions on how long is this going to last? And then we look at the market and the market reality is really, we have high inflation, supply chain issues, global uncertainty, headline risk. I put that as a risk. And the reality is though the market goes down 40% of the time and bear markets are normal. And so it's not knowable now of is this a new bull market coming with the stock that have come up? Is this just a bear market rally? So we can't control those things. It's unknown in real time. But we do know from an investor is we can control how we're invested, and again, taking those emotions out.

Alex Lieberman (10:22):

And so just to make sure I understand when you talk about this concept of investor fatigue, you're basically saying that given the pullback we've seen in the markets as of late, the fact that it is taken a period of time that has felt relatively long to investors, and investors are getting emotionally fatigued from what's happening in markets. And so, it creates potentially the risk of investors behaving in a way that isn't going back to us talking about sticking to their plan, but more so operating in an emotional or irrational way. Is that basically what you're referring to?

Leanna Devinney (10:54):

It is, the discipline that comes with investing. Having that unemotional approach can really creep up on us in times where we have that long drawn out market volatility. So it's really ensuring that we have that portfolio invested that's aligned to us and not contingent on the day to day in the market or even month to month.

Alex Lieberman (11:15):

So there's this idea of direct indexing, which some folks listening to the podcast may have heard of. Others have not. So can you just share what direct indexing means and what it means specifically in today's market climate?

Leanna Devinney (11:27):

So we've had a lot of interest lately from investors on direct indexing. So what it is, it's an opportunity to own the companies or stocks and fractional shares of an index, but own the individual positions outright. So direct indexing gives you a way to customize and personalize and have more control over a full index based on having individual ownership of the companies. And in non-retirement accounts, your brokerage accounts, your investment accounts. It also reduces the impact of taxes, which in turn allows that power of compounding and growth to happen. And because you have the ability to do things like tax loss harvest when you own the individual positions outright. So it's a great way to again, be customized, have more control and it's incorporating tax efficiency into your portfolios.

Alex Lieberman (12:22):

Got it. So in thinking about the difference between just buying the index, as in whether it's going along the S&P via an ETF or a mutual fund, versus what you're talking about with direct indexing, the big difference is direct indexing, you are buying the individual single name stocks that add up to effectively being the index, but because you've done that, it allows you to customize it should you want to own more or less of certain single name stocks, but also you get tax benefit that you don't necessarily get throwing an ETF or a mutual fund.

Leanna Devinney (12:54):

Exactly. Well said.

Alex Lieberman (12:56):

Got it. One last question for you, which is when market speculation is at an all time high, how can investors look beyond the headlines and social media chatter to determine the best move for them to make as an investor?

Leanna Devinney (13:11):

So again, it all goes back to those fundamentals. First, having that investment plan and strategy align to the goals that you have, making sure it's really well diversified to help manage risk, and having proactive rebalancing as part of that, to keep your investments aligned to the goals that you have. I'd say just in my 10 years working with clients. For every market event, I will hear the same sentence and it's this feels different. And I remember run up to the election, Brexit, global pandemic. Now, very high inflation. And I hear, well, this feels different. And the event itself does feel different, but what's not is how the market responds. And like I said, it's down 40% of the time, but that means it's also up and positive 60% of the time. So having that investment plan align to the goals that you have in sticking with your plan is the best way to look beyond those headlines and have that long term success.

Alex Lieberman (14:11):

Amazing. Leanna Devinney, thank you so much for joining Fresh Invest.

Leanna Devinney (14:15):

Thank you.

Alex Lieberman (14:20):

Thanks so much for listening to today's episode. I hope you all feel like you now have a stronger understanding of today's volatile market and the ways you can navigate an unpredictable market through your investing strategy. I personally think this is a really unique time to be an investor because there are just so many options to explore. What's interesting about building investing confidence is that there's always going to be a reason to avoid a new asset class or opportunity, but when it comes to actual investing, the opportunities are limitless to tailor your strategy and try something new. So that's it for me, I'll be back next week to discuss how investors can actively seek passive income and how it's more achievable than you might think.

Alexandra Bass (15:02):
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