Tips on Surviving a Down Market

By Michael D. Brofman, Esq.
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Michael Brofman
Hello everyone. My name is Michael Brofman, and I am a shareholder and director of Weiss Zarett Brofman Sonnenklar & Levy, PC. We are a healthcare and business law firm representing healthcare providers and other small to mid-size businesses in their business transactions, real estate and regulatory needs and business-related litigation. Today's podcast is Tips on Surviving a Down Market. My guest today is Stacy Katay, who was a financial advisor with Merrill Lynch. Stacy has an MBA in healthcare with 15 years of experience in the healthcare industry, including 11 years at Mount Sinai as a director of a 60-person department. So welcome Stacy.

Stacy Katay
Thank you.

Michael Brofman
Well, thank you for coming. I, you know, this is an interesting conversation and it's a good time to have it because there are a lot of people getting very nervous about what we see as an economy that may be going into recession. Actually one of the bankers has indicated that they believe that there will be a mild recession within the next quarter But, you know, I always have clients and when I've been doing this, I've run through recessions, I guess for in the last 40 years as practicing law, I've seen recessions, I've seen slowdowns, I've seen economic downturns and the one thing I always tell my clients in these days is to make sure that they maintain liquidity.

Stacy Katay
Absolutely, it's true that volatility can be very unsettling, but market timing can be very costly for investors. It's important to keep in mind that shallow pullbacks happen regularly, and even severe declines associated with the recession recover quickly from the perspective of a long-term investor. We generally don't recommend pulling out of the market. The reason for this is because it can be impossible to recover from the loss of purchasing power. In fact, history has

shown that the worst days of the market are followed by the best days. For example, going back to the 1930s, if the investor had missed out on the 10 best days of each decade, their return would've been 49% versus over 20,000%.

Michael Brofman
Wow. That's amazing. Yeah, that's an amazing number. So, so in other words, you tell your investors to stay in where they are at this point, basically,

Stacy Katay
For the most part, yes. I mean, it may be cliche, but it really is time in the market and not timing the market. What history tells us is staying invested for the long term pays off, and that investors who pull out of the markets when they are down risk losing out on growth when they recover.

Michael Brofman
So, what do you tell your investors who have liquid assets? Something that is easily fungible that they can use? A cash that's sitting in their accounts? What do you tell them about that?

Stacy Katay
Well, depending on the person, it's a great opportunity to get in the market because there are a lot of things that could be purchased at a discount. So we really look at each client as an individual and, initially we come up with a financial plan for our clients based on their goals, their risk tolerance, and their time horizon. So based on that, we really feel, I mean, finances are at the core of every aspect of life, health, family, giving, work, leisure, and home. The key to accomplishing long term goals is to have a financial plan. And since each person is unique and each financial plan is also unique, the framework of the financial plan is referenced throughout the years to ensure our clients remain on track to achieve their goals. In these types of markets, we may seek total return opportunities.

For example, a company that pays a dividend to add cash flow (depending on the situation), tax loss harvesting or using losses to offset gains from prior years might be appropriate. If you have cash available, meaning your retirement assets are appropriately allocated, and you have enough cash for living at least six months (some cases more) perhaps you may want to look into further diversification among asset classes, alternative investments or real estate to provide passive income. Purchasing property for passive income is an excellent way to diversify. And we have found over time that real estate appreciates and outperforms the market, but this type of investment isn't for everyone. So, it's really important to figure out for each person specifically you know, what they have, what they need and what their goals are.

Michael Brofman
You know what's really interesting though, you talk about real estate. And real estate is something that I recall from the 1986 Tax Reform Act. One year after that, the market collapsed

and by 1988 real estate markets had collapsed-- down about 40%. And the interesting part is that I had clients who had liquidity and the clients who had liquidity were able to take huge advantage of the fact that the market had been very down and they've made investments that made them a lot of money. Some of them, some of them picking up shopping centers and, and various other investments. So it, it seems that sometimes in these down economies, there's gonna be some contraction in the scope of businesses…some businesses, if they're properly positioned, they can actually do very well in the down economy by acquiring assets, by requiring other businesses; they're picking them up at a much reduced cost by acquiring important pieces of their business to be able to develop further. So, is that something that you see as well?

Stacy Katay
Absolutely. There are so many opportunities when you are in a down market. And we believe volatility can be integral to investing in the financial markets. And pullbacks create an opportunity for long term investors to consider adding high quality investments and real estate is a great opportunity as well.

Michael Brofman
So what happens a lot of times is that businesses are teetering (some of the smaller businesses, particularly) and they run into some financial difficulties. And, I've had this before with clients where they want to go ahead and pull out of their retirement funds. And I always counsel them against that. I mean, I'm always concerned about them taking retirement funds out in a down market in a down economy. Because they need to have to have money to be able to live.

What do you do? You tell them the same thing?

Stacy Katay
Yes. It would be a very unique situation. If somebody needed to pull money out from their retirement, it would absolutely be a last resort because you would, depending on somebody's age, you would have a penalty and then you would have a tax consequence, and then that money would be pulled out at a low. It wouldn't have an opportunity to recover from the market. So, it would really be a last resort to pull money out of a retirement plan.

Michael Brofman
What about borrowing against the retirement plan?

Stacy Katay
Depending on the situation, there may be an opportunity for borrowing. We have all kinds of lending that we offer, even taking out a line of credit as a home equity line of credit against a house as an opportunity. But it really depends on the specific individual. So, you know, it might

make a lot more sense to borrow against your assets than to liquidate your positions and reduce the amount of assets in your retirement account.

Michael Brofman
That is interesting because you talked about home equity loans, and I had clients who found themselves in sit down economies that they want to take money out of their home equity loan. And I beg them not to invest that money in their business, but instead lend it, and they lend it basically at the same terms that they're getting their home equity loans so that therefore their company is paying back their home equity loan, effectively paying them back that way. It's a safer way to do that for the small business person who has to use their home equity as a source.

Stacy Katay
Yeah. And that's a good option too.

Michael Brofman
And you know, the reality is, this is, you know, what scares me sometimes with small business people is that they tend to do this. They tend to think that they've got all the answers and they don't go to their investment advisors, they don't go to their attorneys, they don't go to their accountants. I think one of the important things they need to do is to consult their professionals that they're there to help them.

At this point, what do you do?

Stacy Katay
It's a good point. I mean, volatility can be very unsettling and unfortunately, it's emotional when, even on paper, if you see that your account has turned from a 401K to a 201k and you see that your assets have really decreased it's very emotional. And sometimes the natural inclination is, is to pull out. But, that's why we have the financial plan, which we refer back to throughout the course of life and that way we're able to show our clients we're on track. We expected these corrections and that we just have to stay the course, and ultimately they will meet their financial goals; it's just a matter of staying the course.

Michael Brofman
See, I've stopped looking at the reports.

Stacy Katay
<Laugh>, It's a good idea. That's what we're here for. We're there for looking at your investment.

Michael Brofman
The invest advisors all tell you the same thing: don't look at the reports, they're coming down, it's gonna get better. Yeah. And the, the truth is, it's really interesting because statistically, we

are still better than we were before Covid. it's really fascinating how everything went up at one point, but we are still in a better position than we were say, three or four years ago. So effectively I've still done okay. It's just that you have that visual that you get very scared, and I think clients do that all the time.

Stacy Katay
You're right, because people, you know, for 10 years everything was going up, up, up, up, and people got used to that. So, but historically, you know, things don't happen that way over time, they will pull back and then go back up again. You're absolutely right.

Michael Brofman
Yeah. See that happened in the commercial real estate market. The commercial real estate market traditionally used to go up 3% a year, and all of a sudden it jumped like crazy. And then of course when it jumps like crazy, it's a balloon that bursts and comes down. But that's a correction that I think can make things better. I, during this period of time, I always tell clients to buy for need, not for want. In other words, if you don't need to refurbish your offices right now, then maybe you should wait. And so effectively we gotta ride the wave because the waves go up and the waves go down. Which is similar to what the economy is. It's always a riding wave up and down, up and down. The key to me is to maintain kind of a stability throughout this and to look and see where your business is going; to look and see where your personal assets are and to make sure that you don't make any panic moves.

Stacy Katay
Absolutely.

Michael Brofman
Well, Stacy, this has been great. It's been a lot of fun talking to you. I want to continue this conversation another time.

Stacy Katay
It was great. Thank you for having me.

Michael Brofman
That's all for today, but today's podcast will likely be part of a developing discussion as we head into the fourth quarter of this year and the first quarter of next year. Thank you for listening. And please visit our website for news of future podcasts on healthcare and business topics.