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ALLY DONNELLY: Hi, and welcome to Five Questions with Fidelity. I'm Ally Donnelly, joined by Naveen Malwal, Institutional Portfolio Manager with Fidelity Strategic Advisors. Strategic Advisors is the leading portfolio manager for many of our managed account clients.

Now, we're here, because we, in this environment, you have a lot of questions about the markets, your portfolios, your plan. Your time is valuable, and we don't want to waste a moment. So, Naveen, let's get right to it. Given the market volatility and high inflation that we're seeing, some people are wondering, should I get out of the market and move into cash? What do you say to those investors?

NAVEEN MALWAL: Hey, Ally. That's a very common question I get during market pullbacks, and it is tempting to think about maybe going to the sidelines for a while, until the news headlines improve. Historically, though, what I've seen is the investors who tend to stick with their financial plans tend to have better outcomes over the long run. And that's because the folks who go to the sidelines, unfortunately, they normally miss out on the eventual market recoveries, because they can start unexpectedly. And they're pretty quick, and they often begin when the headlines are still pretty grim.

Now, having said that, inflation as additional urgency to this in an inflationary environment, sitting on cash can be costly. Because as the price of things goes up, our purchasing power decreases. So if you had $100 in cash last year, with 8% inflation, that's only going to buy about $92 worth of stuff this year.

And then, lastly, I just talked about cash being risky. But at the same time, because costs have gone up for our emergency cash reserves, it's important to go back and review that amount to ensure it's enough to cover day-to-day expenses or unexpected expenses. Because, again, costs have risen over the last year.

ALLY DONNELLY: OK, so I hear you, stay in the market. But should investors be radically reallocating their assets?

NAVEEN MALWAL: That's another common concern these days. Here, I would say the news is pretty encouraging. Historically, a diversified portfolio made up of stocks, bonds, other investments, typically, has done well, even when inflation was running warm. So, for instance, looking at traditional asset classes, the US stocks normally can do well while inflation is rising, because companies can often pass on rising costs to their consumers and, therefore, see their profits grow.

For similar reasons, international stocks have that same profile, and in addition, if inflation is isolated to the US, but not in other countries, those stocks could add some additional benefit. Finally, in bonds, some parts of the bond market might be more challenged when inflation is warm. But here, diversification can help. So focusing on areas like tips, which are treasury inflation protected securities, or high yield bonds, which have higher yields but a bit more risk, those might be ways of adding some additional inflation protection to a portfolio.

ALLY DONNELLY: OK, so you mentioned stocks. You talk about bonds. Are there other asset classes investors should be thinking about?
NAVEEN MALWAL: Historically, a few other areas that can be of interest, and we have some exposure to these areas within our client accounts. One is commodities, thinking about investments in energy, metals, agriculture products. They typically benefit when prices are rising, and then, lastly, I'll point to real estate investments, real estate investment trusts. Not only can they benefit from a growing economy, but when inflation is warm, they can provide some additional returns there as well.
ALLY DONNELLY: OK, so we've got you front and center. So I'll ask, as stocks fall and interest rates rise, is Strategic Advisors making any adjustments to their portfolio allocations with regards to bonds?
NAVEEN MALWAL: You know, over the last few quarters, we have been de-risking client accounts because we were anticipating a maturing economic environment. That has given us the opportunity to add to our exposure to bonds. So here, one has been in investment grade bonds with the higher yields that are now available. It is more attractive to own high quality corporate bonds or government bonds as they can provide higher income than they have for quite some time.
Plus, normally, they can provide some protection from stock market volatility as well. And as I touched on earlier, diversification can be helpful, so we have added exposure. I've had exposure for some time to areas like high yield, tips, or non-US bonds. Because these can provide some additional benefits in an inflationary environment in the US.
ALLY DONNELLY: You know, we're talking about the bite of inflation. We're all feeling it. So is there anything else investors can do to ease that sting?
NAVEEN MALWAL: Yeah, outside of directly investing, one thing I'm thinking a lot about is budgeting for expenses. So going back, look at month to month. Where does my money go? Are there areas that are maybe not as necessary right now? It's cutting back on expenses and gives me more confidence to withstand both market volatility and rising prices.
The other I'd point to is taxes, which can take a bite out of our investment returns. A team, like mine, for instance, can do a number of things to help investors with taxes, whether it's tax loss harvesting, or focusing on tax efficient investments, or managing capital gains. A lot of steps we can take that can help investors keep more of what they're earning with their investments, and that can, again, provide some stability during moments like this.
ALLY DONNELLY: Yeah, so I want to talk about investors who are either in retirement or [00:06:00.00] nearing retirement. Understandably, they're worried about whether their plans still make sense in this current market. So what should they be doing right now?
NAVEEN MALWAL: Well, Ally, my mom and dad are retired right now, so I feel this question close to my heart. So thinking about some considerations, one I'd bring up is estate planning. Many estate plans, they're worth reviewing every few years anyways, but particularly when inflation is higher. Maybe some of these plans are written in a way with hard dollar amounts, and those [00:06:30.00] maybe need adjusting with inflation. So building a plan that is more flexible can be helpful. So here, working with an attorney, a legal professional, can be invaluable.

Another thing I'd point to is insurance and a few different things to think about here. So one, thinking about disability insurance. If one is working, whether in retirement or not, if this is a critical part of your plan, insurance on disability can provide protection in case that income is indisposed for some time. Well, life insurance is another area, where, again, maybe we picked an amount that made sense a few years ago. You just want to make sure that amount makes sense, again, today.

And, then, lastly, I think about long term care insurance. As we age, some of us will need additional health care support in our later years, and this long term care insurance can help provide some comfort around the potential costs around that. And then the last—sorry.

ALLY DONNELLY: No, go ahead, please.

NAVEEN MALWAL: And then the last thing I wanted to close off on is, if you are working with a financial planner and you have a financial plan in place, I think it's usually good to revisit it once a year anyways. But particularly, now, it can provide some comfort. I think many of us will find that we're in a pretty good place as it is. But for some of us, an adjustment might be helpful. If you don't have a financial plan, I think it's a great time to get one in place to get a better handle on your situation these days.

ALLY DONNELLY: Yeah, I mean, all this points to the importance of planning. Naveen, this is just terrific information. I thank you very much.

NAVEEN MALWAL: You're welcome, Ally. Good to see you.

ALLY DONNELLY: You too. Thanks for watching Five Questions with Fidelity. Please visit Fidelity.com/insights for more news and contact a Fidelity professional if you need help with your individual needs. I'm Ally Donnelley. We'll talk to you soon.

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