Legacy Financial
INDEPENDENT ADVISORS

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Market Volatility: Riding the Emotional Waves

The year began with a wave of market optimism, driven by expectations of stronger economic growth, declining interest rates, and the transformative potential of artificial intelligence. However, by early spring, investor sentiment shifted as global trade tensions and tariff concerns triggered a nearly 20% market decline. A recovery emerged in early summer, supported by easing trade fears, solid earnings growth, and additional rate cuts. By fall, markets regained momentum, led by AI and technology stocks, reaching new all-time highs by the end of the third quarter.

Investing is often likened to an emotional roller coaster, swinging between fear and greed. At our September seminar, "The Unconscious Nudge," we explored how these emotional forces shape investor behavior. Fear tends to dominate, driving sharper and faster market declines than the gradual climbs fueled by optimism. Over time, optimism can build confidence, and momentum may push markets into overvalued territory. When markets are elevated for extended periods, investors often go into a speculative phase, where greed takes hold, commonly expressed as FOMO (fear of missing out).

For the past two years, we've cautioned that the stock market appears overvalued. Multiple valuation models suggest current levels are approaching those seen during the 1999 dotcom bubble. Much like that era, investors seem convinced that markets, particularly tech stocks powered by AI, are on a one-way trajectory. According to First Trust, the top 10 AI-driven tech companies now represent 39.5% of the S&P 500. This concentration, coupled with lofty expectations, has created an environment where elite stocks are priced for perfection. Our concern is that recent momentum may be pushing the market deeper into a speculative phase where future growth may not live up to inflated expectations.

Our long-term investment philosophy remains rooted in fundamentals, not momentum. Historical patterns show that valuation metrics tend to revert over time, and today's elevated price levels may not support expectations of traditional returns. That said, we continue to identify pockets of opportunity. Certain areas of the equity market remain fundamentally strong and attractively priced, offering compelling options for disciplined investors. While the market may sustain short-term gains, we maintain a generally defensive posture to achieve steady, long-term growth.

What We're Currently Doing and Recommending:

1. **Reduce market exposure by 5-10%** relative to your typical risk allocation.
2. **Position holdings more defensively** than the broader market, focusing on quality growth at reasonable prices.
3. **Shift modestly toward international markets,** where valuations remain more attractive than in the U.S.

Volatility is a constant in investing, but with a disciplined approach, it can create meaningful opportunities. Our goal is to help you stay focused, remain well-positioned, and take advantage of those opportunities as they arise.

What We Know, What We Think

	What We Know	What We Think
STOCK MARKET	The S&P 500 Index rose to all-time highs in the 3rd quarter, ending the quarter up 8.1% and up nearly 34% from its most recent lows in April.	By most historic measures, the market remains overvalued. We have generally been defensive the past few years and will likely recommend further reducing market exposure if valuations climb higher in the fourth quarter.
THE ECONOMY	The Consumer Price Index for the past 12 months was 3.0% through September. At the same time, unemployment ticked up to 4.3%, the highest since the pandemic.	As we wrote in our second quarter newsletter, we expect the economy to continue to slow. The effects of slower government spending and higher tariffs have not wrecked the economy, but we believe they will continue to slow the economy.
INTEREST RATES	The Fed has cut short-term interest rates from 5.5% to 4.25% since last summer. The yield on the 10-year Treasury bond has remained near 4.0%.	As the Fed continues to lower short-term rates, most consumers are unlikely to see a significant drop in borrowing costs like mortgage rates.

It’s Time to Look at Asset Location to Optimize Your Taxes

by Bryan McCrea

Leveraging asset location will ensure that your investments are tax optimized going into the new tax year. Asset location is a tax-minimization strategy that maximizes after-tax returns by strategically placing investments in either taxable or tax-deferred accounts, based on how those assets are taxed.

The strategy works by placing tax-efficient assets, such as stocks, equity mutual funds, index funds, and exchange-traded funds (ETFs), in taxable accounts. These assets benefit from favorable long-term capital gains and qualified dividend tax rates (0%, 15%, or 20%), while allowing investors to defer capital gains or offset gains with losses. In contrast, tax-inefficient assets like taxable bonds, real estate investment trusts (REITs), and bond mutual funds generate regular income that is taxed at ordinary income rates (up to 37%), and are better suited for tax-deferred accounts like IRAs or 401(k)s.

Asset location is most effective when used with proper asset allocation. You and your advisor will work together to determine your ideal mix of investments based on your goals and risk tolerance, and then apply asset location to optimize tax outcomes.

Asset location especially benefits older investors nearing retirement who will soon begin withdrawing funds, but younger investors can still see long-term gains. For instance, you could place equities in taxable accounts and fixed-income holdings in retirement accounts to minimize taxes.

Ultimately, effective asset location depends on factors like your income level, investment time horizon, and current tax laws. Your Legacy advisor is here to help you evaluate those factors so that you keep more of what you earn. Make your annual appointment today.

Smart Year-End Giving

by TC Falkner, CFP®

The One Big Beautiful Bill Act (OBBBA) did not significantly change charitable giving rules directly, but did alter some charitable deduction guidance. As you plan your year-end donations, you’ll want to understand the OBBA’s impact on charitable deductions in 2026 and be strategic in your giving strategy as you close out 2025.

Understand What’s Deductible in 2026

All taxpayers, even those taking the standard deduction, can now deduct charitable gifts up to $1,000 (single) or $2,000 (joint). Charitable deductions beyond the new thresholds will still require you to itemize. If your total itemized deductions do not exceed the standard deduction ($15,750 for single filers and $31,500 for joint filers), selecting the standard deduction would remove the deductibility of any charitable contributions beyond the new thresholds.

The tax bill also added a 0.5% “floor” on charitable deductions, meaning the first 0.5% of your adjusted gross income (AGI) is not deductible for giving. So, if your AGI is $150,000, the first $750 given doesn’t count toward your deduction.

Make Giving More Strategic

Most people give reactively, but proactive planning could save you money. Two simple strategies can help:

Bunch Contributions

Instead of donating smaller amounts annually, consider “bunching” several years’ worth of giving into one tax year. This can push your total itemized deductions above the standard deduction, allowing you to itemize and claim a larger tax benefit. For example, a couple planning to give $20,000 per year for five years could instead donate $100,000 in one year, deduct a larger percentage, and then still take the standard deduction in later years.

Use a Donor-Advised Fund (DAF)

A DAF lets you donate a lump sum now (and get the deduction this year), while distributing the funds to charities over time. Essentially, you are pre-funding future generosity while maximizing tax timing. For example, if you try to bunch contributions into one year, you can donate all those contributions into the DAF and then invest those funds until you are ready to send the charity your desired amount each year.

Align Giving with Your Financial Plan

Charitable giving shouldn’t feel separate from your broader financial strategy. With a little planning, you can give more intentionally, maximize your impact, and still benefit from available tax incentives.

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