Legacy Financial
INDEPENDENT ADVISORS

2nd Quarter | 2025

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Market Volatility in Perspective

Market volatility is nothing new. Since 1980, there have been 24 years when the market experienced at least a 10% pullback. Remarkably, in 14 of those years, the market still managed to deliver positive returns by the end of the year.

Maintaining a long-term perspective is crucial, especially during uncertain times. At the beginning of 2024, we highlighted that by most historical measures the market was overvalued. While we remained cautiously optimistic, we upheld our balanced risk allocations for clients. Meanwhile, the disconnect between market performance and fundamentals deepened. By year's end, the market had risen by 20%, despite earnings growth of less than 8%, leaving the market substantially overvalued.

We acted decisively to mitigate risk. In January 2025, we prioritized a more conservative approach, reducing stock exposure by 10-20% across most portfolios for the first time since late 2021.

By mid-February, the U.S. stock market hit new highs, only to drop nearly 20% by early April. The catalyst? A resurgence of tariff-related tensions – a reasonable excuse for a long-overdue correction. As we discussed last quarter, while tariffs can serve as effective negotiating tools, basic economics tells us that increased tariffs and trade wars can slow economic growth. While we believe the impact of tariffs could be significant, we do not think it will lead to a global economic crisis.

Slower Growth Ahead

In recent years the economy's growth has been fueled by substantial government and deficit spending. However, we expect a return to fiscal discipline, and the decrease in government borrowing and spending will likely slow economic growth. After all, paying down debt is far less stimulating to the economy than spending it.

SAVE THE DATE

June 19th Client Appreciation Day

The Federal Reserve's policy decisions also raise concerns. Four years ago, they were slow to address rising inflation, keeping interest rates too low for too long. Now, the pendulum appears to have swung too far in the opposite direction; prolonged high interest rates have constrained inflation but may slow economic momentum.

Higher tariffs and reduced free trade add another layer of risk, amplifying the economic headwinds we face today.

Navigating Volatility

We don't believe in a passive "ride it out" strategy. While we are not reactionary short-term traders, we actively seek long-term opportunities within short-term market fluctuations.

In early April, we strategically reinvested 5-10% into the stock market, capitalizing on recent declines. Although we still view the market as mildly overvalued from a long-term perspective, it is no longer substantially overvalued. At current interest rates, bonds continue to be an attractive alternative to stocks.

Despite lingering near-term risks, we anticipate a rebound from current oversold levels as we head into the summer months. While the market may hit a few more lows later this year, we expect it will end the year either flat or slightly down.

As politicians continue their negotiations in the headlines, the rest of us must focus on living our lives. Eventually, as the noise quiets down, markets will adjust and stabilize.

What We Know, What We Think

	What We Know	What We Think
MARKET VALUATION	At the beginning of the year the market was substantially over-valued by most historic measures. The recent correction in the stock market has brought the market's Price-to-Earning ratio down, but market valuations remain historically high.	The recent pull back has helped bring the market closer to long-term fair value. We expect slower earnings growth this year to limit near term upside in the market.
MONETARY & INTEREST RATE RISK	Short-term interest rates remain significantly above the inflation rate despite rate cuts in the second half of 2024.	If the tariff threats slow the economy, the Federal Reserve is likely to start lowering rates soon.
ECONOMIC HEALTH	The March CPI came in at -0.1% bringing the one year inflation rate of 2.4%, it's lowest point in recent years.	Increasing taxes on imports (tariffs) won't necessarily cause inflation to increase. We expect inflation to remain fairly subdued through the end of this year.

The Pros & Cons of Rolling Over Your Employer-Sponsored 401(k) to an IRA

by Bryan McCrea

There are many factors to consider when deciding whether to leave your funds in an employer-sponsored retirement plan or roll them into an Individual Retirement Account (IRA).

In a Legacy Financial IRA, we can develop a financial plan and implement a long-term strategy based on your investment objectives and financial goals. A personalized portfolio is constructed to best fit your financial needs for both the short and long term. You have the flexibility of choosing an investment advisory account or a traditional brokerage account.

Rolling over an employer-sponsored plan to an IRA can provide more control, better investment options, and access to more robust tax strategies, as well as other advantages like better communication, simplified recordkeeping, and estate planning benefits. However, there are also potential drawbacks to consider, such as limited access to funds, higher fees in some cases, and loss of creditor protection.

It is important to evaluate your individual situation and consider all options before deciding. Consult with your team at Legacy to determine the best course of action for your retirement savings.

Employer 401(k) Advantages

- ☑ Borrowing features unavailable in IRAs
- ☑ Typically protected from claims by creditors
- ☑ Often have lower annual fees & investment expenses than IRAs
- ☑ You may be able to take penalty-free withdrawals if you leave your job between ages 55 & 59½

Benefits of Rolling Over to a Legacy IRA

- ☑ Your Legacy team develops a **personalized financial plan and portfolio** that best fits your short- and long-term needs
- ☑ Offers a wider range of investments than an employer plan
- ☑ You can consolidate several retirement accounts into a single IRA to streamline management

How Dollar-Cost Averaging Takes the Guesswork Out of When to Invest

by TC Falkner, CFP®

What is dollar-cost averaging?

Dollar-cost averaging (DCA) is the process of buying the same investment over multiple time periods. For example, instead of investing $120,000 in stock upfront, an investor would purchase $10,000 of that same stock each month for one year. Since publicly traded stocks constantly change prices, each of the 12 investments will have a different price. If the average price of all 12 months is less than the price of the first month, then arguably the DCA strategy was preferable to the first-month lump sum investment.

Benefits & Drawbacks

The primary benefit is to take the guesswork out of timing the market. Splitting up your investments over time can potentially lower the risk of investing at the wrong time. DCA also gives investors a different perspective on declining markets and prices. Instead of seeing market dips as a reason to sell at a loss, investors intentionally buy in down markets to lower their average purchase price.

One notable drawback to the DCA strategy is the opportunity cost. Waiting months or years to invest all the money could result in missed returns. For those with long-term savings goals, DCA's benefits may not outweigh its drawbacks.

How We Can Help

Your Legacy team can help assess the pros and cons of using a DCA strategy. If it's right for you, we will partner with you to determine the right investment vehicle, investable amount, and time period that best fit your risk tolerance and goals.

At Legacy Financial, we provide peace of mind for your financial future.

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