CONFIDENT CONVERSATIONS® on Retirement:
Navigating Inflation and Market Volatility: How to Help Manage Your Portfolio

Kim Zook: Welcome to T. Rowe Price's CONFIDENT CONVERSATIONS® on Retirement. My name is Kim Zook, and I'm excited to be your host. As a person who is naturally curious, I've dedicated my career to lifelong learning and asking the right questions to help people successfully prepare for retirement. My colleagues joining me today are financial professionals who also help people on their retirement journey, whether they are planning for retirement or already in it.

Today we're diving into a topic that's on everyone's mind: navigating inflation and market volatility. When prices are rising and markets are volatile, making sound investment decisions may be overwhelming. You may be wondering how you can protect your investment portfolio during economic uncertainty. Today we'll provide you with practical strategies that can help you weather the storm.

With me to discuss inflation and market volatility are CERTIFIED FINANCIAL PLANNER™ professionals Emily Herstein, and Matt Spratt. Welcome to the show, Emily and Matt.

Emily Herstein: Hi, Kim. Thanks for having us.

Matt Spratt: It's wonderful to be here.

Kim Zook: Let's get started. To start off as financial planners who have been working with clients for decades now, I'm sure you've had many conversations around inflation, volatility and the markets and how each time there's a disruption, things can seem different. Has this been your experience? Do you have any stories or recent conversations you'd like to share?

Matt Spratt: This is absolutely true, and it's actually one of the most common conversations that we have. The markets, economics, fiscal policy are all the underpinnings of the markets that we invest in so, when there's hiccups along the way, it tends to cause the cycles of ups and downs. And that's fundamentally why at T. Rowe Price we really start by focusing on the individual and what their needs are for the money, what their goals are, as well as what their risk tolerance is. And our goal is always to find a portfolio that's going to give them the appropriate growth opportunity that they can achieve their goals, but also allow them to ride out these ups and downs cycles so that they can sleep at night and not feel like they need to panic and pull out of the markets.

When it comes to market volatility, one of the things I hear from clients often, with just about every time something happens, and it's usually a down cycle, anytime there's a down cycle in the markets is that “this one's different.” You know when it was the dotcom bubble, whether it was 9/11 or the mortgage crisis, high inflation, the pandemic, high interest rates taking a bite out of the markets, no matter what it is, I often hear this, this sentiment: this time is different.

This time is different. And when I talk to clients, you know, we always talk about a long term buy and hold strategy. We want them to stay consistent in their approach over time. But I also know that when you're an investor and you've just lost 15% in your portfolio, this long term buy-and-hold strategy often sounds tone deaf.

So that's why when I talk to clients about this, staying invested, even through the bumps in the road, I tend to talk about “does this mortgage crisis, does this high inflation rate, does this high interest rate affect the underpinnings of our capital markets?” And what I mean by that is, are there still going to be companies that go to the stock markets to issue stock, to raise capital, to grow their businesses, or are there companies that are still going to go to the bond market to issue bonds to fund their businesses? And if the answer to that question is that, yes, there are still going to be companies looking to raise capital in these ways, my sentiment is that we should stay invested and allow planners and advisors to help you understand what is the appropriate portfolio for you and how that fits into your larger financial plan, so that we can make sure that we're balancing the opportunity for growth, as well as the risk of loss to your personal needs as well as, you know, making sure that you can afford to pay for them with what you what you generate.

Emily Herstein: I totally agree, Matt. Our memories are very short. Right? Every time we have one of these cycles, we think “this time is different” and clients are quick to react and then they look back and think, “I shouldn't have done that, I should have stayed the course,” or “everything worked out. It was just part of the cycle,” and we have to remind ourselves, as financial professionals and also our clients, that it's going to be okay. It might feel different this time, but it's just part of our economic cycles and that's the emotional side of investing, is really being able to weather those storms. That's one of the reasons we talk about so often, having a plan and going back to that plan is to try to ground ourselves from those emotional roller coasters.

Matt Spratt: Yeah, I think that goes back to what we were talking about earlier about like defining what your personal needs are, right, and understanding that while the markets are there to help us grow our money, at the end of the day, what's really important is that we get to retirement or that we can spend the time with our grandkids or take that trip that we really planned.

Kim Zook: Thank you both for that. Very impactful. Now let's talk about how these issues can impact investors. Emily, how does inflation affect investments?

Emily Herstein: So, Kim, inflation is essentially the rate at which the general level of prices for goods and services is rising. And subsequently the power of your currency, your dollar is falling. Right. So, we all can think back to when a dollar could buy so much more. That's inflation in a nutshell. We can see higher inflation due to many factors, including supply chain disruptions, increased consumer demand, post pandemic as an example, rising energy costs. But the bottom line is it's when our dollar doesn't buy as much.

Inflation can erode the purchasing power of your money, right? Just like I said, your dollar doesn't buy as much, which is a common concern, especially for clients holding cash and fixed income assets like bonds, you're essentially losing money safely. Your money is sitting there, you're not earning very much, and a year later you're not going be able to purchase as much as you could today. Certain asset classes, such as commodities, real estate, equities all can act as a hedge against inflation because they tend to appreciate in value as prices rise. And that's the importance of having a diversified portfolio.

Kim Zook: Thanks, Emily. And what about market volatility, Matt? How should investors be thinking about it?

Matt Spratt: It in simple terms, volatility refers to the frequency and magnitude of price movements in the market. Honestly, it can be unsettling. But market volatility is a part of the game, it's a normal part of market behaviors. When the market is volatile, prices can swing dramatically up and down in short periods of time. And as one of my advisors says, that really hurts our feelings. Market volatility can be unsettling, but it is important to remember that it's a normal part of the market.

If you think about a company, there are many things that go into the underlying value of that company. It's their assets, all the things they own. It's their deliverables. It's their sales book, it's their projected sales. It's all of those things that go into the fundamentals of a company that make up that value. And we often see the price on a stock market, we think the value of that actual company is going up and down in real time. But there's a lot of other things that go into that price on the stock market. It's the speculation. It's the news cycle, it's articles about, you know, something that happened in in one of their stores or on one of their planes or whatever it is.

Think about GameStop, for example. The run up that GameStop had wasn't based on the fundamentals of the company. It was based on a bunch of people getting on the internet and talking about how "gamers are a huge part of the economy. They buy games, a game stock. This is, you know, a miss in the markets." But ultimately the fundamentals didn't support that.

Think meme stocks, right? That's a great example of a bunch of people who very quickly can take this picture with a little bit of text and distribute it to thousands, if not millions of other people and cause those people to make an instant decision that, "oh, hey, I need to go invest in X company or Y company," or "I need to go sell X company or Y company." But that's not deep fundamental analysis. That's often just a flash in the pan, something that somebody thought was funny or exciting or it serves their own personal interest because they're a large owner of that company. Whatever those things are. But that's why fundamental analysis is so important to investing, is because you really need to understand whether or not the company is profitable, whether they have an opportunity to grow inside of the market, or have they already grown as much as they can grow. And whether or not their leadership team is capable of executing on a plan to make sure that they continue to grow or continue to be profitable.

Emily Herstein: I think it goes back to our memories being short.

Matt Spratt: I think you're right.

Emily Herstein: Yeah.

Matt Spratt: I think you're absolutely right. And that's why at T. Rowe Price, we're believers in active management is because there's, there is real understanding of what the business is capable of by looking at their, yes, all those things we talked about previously right there, their deliverables. The fundamentals of their balance sheet and their cash flows, but also the quality of their leadership teams, the quality of their strategy, their plan, their position in the market and how much market they have.

So ultimately, that's why we have asset managers looking at these companies and doing a deep dive and talking to the real people so that they can find the signal through all the noise of the media and other things. This is also why during volatile periods, it's critical to stay focused on your personal long term investment goals and not making impulse decisions based on what you see in the news or hear from somebody else, but really sticking to your plan.

One of the things I talk to clients about is the concept of "right butts, right seats." What I mean by that is in today's modern world of rapidly moving market information, complex globalized businesses, and supply chains, and the constantly changing personal finance and tax landscape, it can be useful to have professionals on your side to help you make informed decisions about your portfolio.

I'll try to explain it this way. At an investment firm, you typically have portfolio managers and analysts at the top of the house. These women and men are experts in looking at the fundamentals of specific securities, stocks and bonds and evaluating them for investment.

Portfolio managers and analysts generally meet regularly to collaborate on putting together complete model portfolios. Some good examples of these portfolios are solutions like the retirement date franchises. This type of approach takes advantage of the focused expertise of each manager and analyst and allows them to collaborate on a fully diversified portfolio for clients who prefer not to build their own diversified portfolio or want to use them as a core to their portfolio because they like to dabble on the sides. That's layer two of how investment providers may support clients.

Lastly, you have the third layer: your individual financial planners and advisors. Generally, these professionals will have their financial planner designation and are experts in funds and services, and specifically are experts in personal finance and investors. This allows advisors to marry all of the aforementioned investment expertise together along with the knowledge of personal finance, financial planning, and, most importantly, you, the individual. This marriage of expertise allows advisors to help investors achieve their financial goals, while keeping their eye on what is most important: what they want to be in retirement.

When you break it down like this, it's clear that each one of these seats is its own discipline and requires specialized professionals to sit in those seats. We feel like this combination of the right butts in the right seats gives clients the right person for the right jobs so they can keep their eyes on what they want to be in retirement, even if there is inflation or volatility in the mix.

Kim Zook: And so, one of the things that we know is having a solid plan is essential. Let's dive into some actionable strategies to help people stay the course. Emily, what are some ways investors can protect their portfolios from inflation?

Emily Herstein: So, one effective strategy is to invest in assets that typically outperform during an inflationary period. So, these include commodities, real estate, treasury inflation protected securities, also known as TIPS. And then focusing on sectors that have pricing power, such as technology and health care can also be pretty beneficial.

The other thing is, when planning for your retirement, you should be sure to keep your retirement savings on track despite inflation or volatility. So, as a rule of thumb, T. Rowe Price recommends that investors have about seven times their income saved by age 55. By age 60, they should have about nine times their income. If you find yourself lagging, that's an opportunity to make catchup contributions. But when doing this, you also want to account for inflation in your asset allocation. We don't want to just run all to stocks, run all to cash. You know cash feels safe. But as we talked about in the beginning, you're losing money safely if you're only in cash you're safe, but your purchasing power is not keeping up. So, we want to make sure we have a diversified portfolio to account for inflation, volatility and maximizing your contributions is one way to offset the potential effects of inflation. So, it's making smart choices about ways to invest your savings.

Asset allocation is the primary driver of a portfolio's performance, over time. And we've seen stock returns generally stayed well ahead of inflation over the long term. So, we really want to make sure we have a piece of every part of the pie, when we're thinking about our long-term investing strategy.

Kim Zook: So, Emily, this year I'm eligible for catchup contributions. So, I appreciate your recommendation around maximizing contributions, so that I can afford more in retirement…

Emily Herstein: Exactly.

Kim Zook: …to hedge against inflation. Thank you so much, Matt. How about strategies for managing market volatility?

Matt Spratt: One of the key strategies for protecting your investment portfolio from market volatility is diversification. So, let's just talk about what diversification is for a second. Diversification is spreading the risk out in your portfolio amongst the different areas of the market. So yes, that's different companies, but large companies, small companies, mediumsized companies and when you think about the bond market, investment grade bond, high yield bonds, international bonds, all of those things.

Ultimately, though, I think here at T. Rowe Price, we believe in three pillars of your investment portfolio. If you want to think about it that way. Those three pillars: are diversification, like I said, spreading the risk out amongst the different areas of the market, rebalancing consistently and regularly and methodically, not necessarily based on market conditions, but just based on the need to keep your portfolio in balance. If you think about the stock market's probably going to grow a little bit faster than the bond market, so that part of your portfolio could take over and expose you to undue risk. And lastly, becoming more conservative as your objectives and your needs change, as we get closer to your objectives. Roger Young actually has a really great paper on diversification and the value that it plays and rebalancing and the value that that can play inside of a portfolio.

Emily Herstein: Yeah, rebalance, but we also want to keep in mind what your goals are. Don't panic in times of market volatility and change your whole strategy when your goals haven't changed at all. Right, you set a goal, you set a plan with yourself, with your advisor, we want to make sure you stick to that plan. Just because things changed in the market, your ultimate timeline, your time horizon, your risk tolerance hasn't changed just because there's changes in the market. So, you want to keep that in mind. You know, an analogy to think of, I mentioned pie a minute ago. I'm going to give another analogy. Let's think of your investments like a fruit basket. If you only had apples and there was a bad apple season, your fruit basket is nothing, right? It plummets. But if you have apples, oranges, bananas, berries, you can make a good pie, but then you also have, you know, some room for error. If one fruit has a bad season, it's not going to ruin the whole basket.

Matt Spratt: That's a great, a great point, Emily. I mean, I think you're absolutely right, having the different areas makes a big difference. And having the variety can make a big difference, too. And at the end of the day, when we see red arrows, our feelings get hurt. But that doesn't necessarily mean our strategy should change. To your point, that's why we pick different levels of risk for different clients, because what we want is them to focus on the long term and hold on through those market volatility so they can get yes, they're going to absorb some of the bad days, but they're also going to absorb the good days. And historically there's more good days and bad.

Emily Herstein: One of the reasons our feelings get hurt is because we get a statement. So, I want you to think about your house, right? That's oftentimes one of people's biggest assets. Your house fluctuates in value, too, but you don't get a statement on it. So, when you're thinking about upsizing or downsizing, you're not paying attention in great detail to what the price of your house is doing, what the value is doing. You just know you want to move. And so, you don't make a decision to move today because your house dropped in value. You wait until you're ready to make that move that aligns with your goals.

Warren Buffett famously said, “the stock market is designed to transfer money from the active to the patient,” so it's important to stay calm and stay patient during these volatile times. That's really the key to long term success. And don't underestimate the value of a financial professional and professional guidance. You know, part of the role that an advisor plays is giving you personalized advice based on your situation and really helping you navigate the market volatility and the inflation and all of the emotional sides of investing. A financial professional can offer you a levelheaded perspective and keep you focused on those long-term objectives and goals, even when the market gets choppy, right?

I know we did, an episode in Season 3 talking about the value of financial advice, and it's really like having a coach in a high stakes game. They can see the bigger picture and guide you through play by play, ensuring you don't make an impulsive decision because you're emotional when you're in the game, and that can really harm your overall strategy.

Kim Zook: And so, Emily, if I heard you right, in terms of a financial professional, if you're looking at your portfolio as a fruit basket, that professional can help you manage and ensure that all of the fruits are diversified well, in those situations where one might just have a bad season.

Emily Herstein: Exactly, and help you avoid just buying the apples or just buying the bananas.

Kim Zook: That's awesome for our listeners to hear. So, Matt, how can investors stay informed and make smart decisions amongst all of this uncertainty? Are there any resources you would recommend for staying updated on inflation and market trends?

Matt Spratt: I do think it's important to stay informed. And you know, of course, keeping that in the context of not overreacting is also important. But generally speaking, what I would say is, you know, I recommend, you know, reputable financial news sources, subscribing to economic newsletters, and leveraging tools from financial institutions that offer market analysis. So, you know, also T. Rowe Price has a slew of tools on our website that can help you understand your particular situation as well as market perspectives. It's important to have your own plan, though. One of our, thought leaders recently put out an article talking about the comfort that having a plan can give to our clients. I think it's important to understand that when we get a plan behind us, it does give us more comfort and makes us feel a little bit safer, especially in those volatile times. Because, I mean, the way that I talk about it with the advisors is imagine the power that comes from when you do see those red arrows and your feelings do get hurt, being able to look at your financial plan, incorporate that loss that you've seen and say, “oh, but I can still retire on time. I can still take that trip I was trying to do. I can still buy that house.” So, I also think having a strong financial plan is important.

Kim Zook: Yeah, I'm a firm believer in the importance of a plan to help ground, myself, personally. I can also say the red arrows that you referenced, are, what you really mean by that is if the statement goes down and it's red to also look long term at how the statement has also gone up green and take a long-term approach. So, I really appreciate that, Matt. Emily, let's switch to you. How can investors avoid common pitfalls during these times?

Emily Herstein: As Matt was saying, it's really about staying the course and avoiding making emotional decisions. That's key. It can be really tempting to react when we see market swings, but maintaining a disciplined approach is essential. You know, we talked about those red arrows, most other prices of things, if you see the price go down, you would buy more. If you love a certain product and you see it's on sale, you would tend to stock up on it. For some reason, the stock market is different. We see those red arrows and we want to get out as opposed to buying more. So, if we're strategically, and disciplined approach to investing, we should be making those buys and sells in accordance with our plan, not in accordance with those red and green arrows. So, it's really focusing on your plan, staying diversified, focusing on your long-term goals, and helping you mitigate the risk of short-term volatility and inflation.

Kim Zook: So interesting about the emotional reaction. I was just thinking about the grocery store. And when it's two for one, I will buy more, right?

Emily Herstein: Right.

Kim Zook: On organic grapes. That happens to be a favorite in our household. But the flip side, I'm now envisioning myself, thinking about the emotions of an account balance. And you're right. I'm not sure that the reaction, the natural reaction would be to invest more, but I think this is so great and powerful to hear from financial professionals like yourselves, because our audience can really benefit from this. So excellent, and thank you.

It's hard to believe, but it is time for us to start wrapping up the discussion. I'd like to leave our listeners with some parting thoughts or next steps, because plans are important, but action is always helpful too. Can you share some brief takeaways, both of you? And let's start with you, Matt.

Matt Spratt: So, in retirement, I think one of the things that's helpful is you're planning who you want to be in retirement. So, it's, it's a second act to your life. So, figure out the five Ws. So, the who, the what, the when, the where and the why. Those are things that we all can do a deep dive on ourselves and really understand. When we know those things, that makes it a lot easier to plan the financial pieces, because then we know what things we're going to have to spend money on. And then I would also suggest too, for our listeners to automate what they lack time, passion or expertise in; for example, consistent, and repeatable and methodical rebalancing makes a huge difference. One of our thought leaders also has a paper on the frequency of rebalancing, but it's hard to do consistently and methodically and without emotion, so that tends to be one of the things that, clients like to automate, because then they don't have to make the decision to rebalance when the markets fluctuate down or up.

Kim Zook: Excellent. What about you, Emily? Anything to add?

Emily Herstein: I echo everything that Matt said. I think it's okay to be concerned and it's natural to have a reaction when you see volatility, inflation, you know, other headlines in the news, your statements going up and down. It's okay to have a reaction to that. It's really what you do with that reaction that makes a difference. It's okay to be emotional, but you want to again stay centered, go back to your goals, talk to a financial professional, make sure you stay informed and don't make a rash decision that you can't undo.

Kim Zook: I couldn't agree more. Thank you to both of our experts, Emily and Matt, for sharing their valuable insights. Thank you both.

Emily Herstein: Yeah, thanks for having us.

Matt Spratt: Great being here.

Kim Zook: To summarize, understanding the causes and impacts of inflation and market volatility is the first step in navigating these challenges. Diversification, focusing on long term goals, regular portfolio review and rebalancing and seeking professional guidance are crucial strategies. Volatility is a natural part of investing and with the right strategies, you can navigate through it successfully. Staying informed and avoiding emotional decisions can also help you stay on track.

Please tune in to our next episode, which focuses on unlocking the power of Social Security. Again, I'm Kim Zook, thank you for listening. If you like this podcast, please rate us and subscribe wherever you get your podcasts. And remember that a confident retirement starts with asking the right questions.

T. Rowe Price
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