

Subject: Greenleaf Newsletter: Why Market Timing Fails and Penalty-Free IRA Withdrawals

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Hello Greenleaf, Welcome to Our Client Newsletter

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Vanguard Studies Market Timing and Sees Terrible Results

Stock and bond markets have been increasingly volatile in 2025. As the ups and downs have intensified, investors may be finding it hard to "stay the course" even with a diversified portfolio. The question arises: Wouldn't it be better to sell our investments and wait until things calm down?

Last year, Vanguard took a fresh look at this question with a study that analyzed the U.S. stock market

Question:

I'm getting nervous about all the recent layoffs. Starbucks, Amazon, Meta, Southwest, Chevron, and Kohl's are eliminating thousands of jobs collectively, plus tens of thousands of Federal workers are being dismissed. I will be 58 this December and, if I'm laid off, I may not be able to find another job in my field. Can I tap into my retirement

Market News: Uncertainty Rises

The stock market fell back in February as economic reports showed U.S. households are getting more pessimistic about inflation and the potential impacts of tariffs. The consumer sentiment index had its largest monthly decline in more than three years.

These worries about consumer strength have caused small-company stocks to slip the most at about -5% in February, while the large-company

performance from June 1996 to March 2024.

Painful Declines

During that period, the stock market had five "bear markets" where stocks declined more than -20%. The biggest loss was -55% during the 2008 global financial crisis. The -50% dot-com bubble of the early 2000's was also during this period, as was the Covid pandemic.

Huge Gains

Yet during that period, stocks gained an annualized 9.7%. Cumulatively, the gain was 1,218%.

Just 5 Days

The Vanguard team looked at a \$100,000 investment in a balanced 60% stock and 40% bond portfolio during that 28-year period. If left alone, the money grew to \$865,000.

However, if an investor tried to time the market and accidentally missed just the best five days, the \$100,000 investment would have grown to only \$659,000 -- a difference of \$206,000! By missing the best 10 days, the end result was only \$540,000.

Why Does Market Timing Fail?

One of the reasons market timing fails is that these best days often occur at

accounts without paying an early withdrawal penalty?

Answer:

Yes, with the right strategy, you can tap into your retirement savings and avoid the 10% penalty for withdrawals before age 59 1/2.

If you find yourself short on available cash due to job loss, natural disaster, or other emergency, we recommend planning with a Certified Financial Planner who can help determine a tax-smart strategy, while also balancing short- and long-term needs.

Depending upon your retirement savings, you may have the following options:

Roth IRA: Savers younger than 59 1/2 may make tax-free and penalty-free withdrawals from a Roth IRA as long as the amount withdrawn does not exceed the total contributions you made to your Roth IRA over the years.

In addition, your Roth IRA must have received its first contribution at least five years ago.

Roth 401k: If your company rules allow for withdrawals of

S&P 500 Index shows a decline of about -2.3%.

International stocks and bonds, however, have gained about 2% in the past month. Both these segments have lagged in the past few years, but investors may be looking to assets that are better values -- and therefore safer -- than high-priced technology stocks and cryptocurrencies.

Historically, better relative performance by international stocks (as compared with US stocks) has happened when earnings from U.S. companies have declined. Will this happen in 2025? If corporate taxes are cut, company profits will increase. However, tariffs may muddle supply chains or change the buying habits (or abilities) of consumers.

In 2024, a small number of companies were responsible for most of the stock market's gains. Funds that didn't hold Nvidia, Meta Platforms, Tesla, and Broadcom had relatively mediocre years. We think the era of a few high-growth winners is over for now. Instead, we expect gains to come from steady growers that can still thrive in uncertain economic conditions.

unexpected times. In the Vanguard study, the best single-day return during a bear market period (when the longer-term trend is down) was 11.4%. This is higher than the best single-day return during a "bull market," which was a gain of 7.2%.

Even a temporary break on the sidelines can result in lower gains over time. A better strategy for coping with volatility -- supported by Vanguard's study -- is to rebalance when your stock/bond mix is no longer close to your target levels. If the market goes up, rebalancing will ensure your stock position is not too high for your risk tolerance.

If you'd like to discuss your accounts, your stocks/bond mix, or our rebalancing, just let us know. We're always ready to review your investments with you.

contributions only, then a Roth 401k has the same early withdrawal rules as a Roth IRA.

401k: Workers who retire the year they turn 55 or later may take 401k withdrawals without a penalty. However, you will pay income tax.

As always, we are happy to discuss any financial considerations with you. If you have a question or a concern, please contact us!

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