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Challenges and Suggestions for Investment and Financial Management Applications in the Context of Regional Instability

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Abstract:

Global shocks—pandemics, wars, and trade fights—are shaking markets more often than most investors expect right now. This essay shows how those events spread from politics to the wider economy and then into asset prices. Using recent examples (Russia-Ukraine war, Israel-Hamas conflict, oil shocks), it explains the main market pathways: inflation, currency swings, falling local stocks, and flight to safe assets. To respond to the situations, the paper compares three easy and basic portfolio styles: the classic 60/40 stock-bond mix, a safe-haven mix that adds gold and U.S. dollar assets, and a quarterly rebalancing rule that keeps risk in line. Last but not least, it offers a practical toolkit for everyday savers, including the three-layer account system, a five-step investing checklist, and a real-life case showing how a modest earner stayed on track through a volatile year. These clear rules, small hedges, and regular rebalancing can protect wealth without complex products.

Keywords: Global instability; Portfolio strategy; Rebalancing; Three-layer account system.

1. Introduction

1.1 Research Background and Research Topic

In the recent years, there are many things that shock the economy happening in the world. For example, the covid-19 pandemic, the Russia-Ukraine conflict, and trade tensions between powerful countries. All these contribute to an uncomfortable fact that global instability has dominated much more time than people expect. For example, After the Russia-Ukraine war began, Europe's gas supply plunged, cutting industrial gas use by ~11% in 2022 and driving eurozone inflation to a record 10.6% in October. Therefore, the research theme of the essay will focus on how can individual and institutional investors adjust their portfolio decisions when geopolitical and macro-economic turbulence is both frequent and severe [1]?

1.2 Research Objectives and Research Significance

The purposes of the research are clear. First, through showing the impact of global instability on different

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kinds of portfolio, investors can clearly see and understand where the risks and dangers come from. Second, by specifically introducing 3 ways to build a portfolio, complex tools or methods can be proved to be unnecessary to protect wealth. The key is to correctly adjust the mix of assets. Last but not least, turning the results of the research into clear and easy steps can help most people keep a smart and calm mind during tough periods. The significance is to help everyone form a basic but correct understanding of economics in order to benefit not only individuals but also the whole market.

1.3 Research Methods and Research Structure

Methodologically, the essay combines (a) a condensed literature review on crisis transmission; (b) a descriptive data snapshot of three recent shocks (the 2020 oil-price collapse, the 2022 Russia–Ukraine war, and the 2023 Middle-East flare-up); (c) a simple back-test that pits a traditional 60-40 equity–bond mix against two alternative portfolios; and (d) a set of real-life “playbooks” distilled from practitioner reports. The remaining text is organised as follows:

First, explaining how global shocks reverberate through politics, macro-indicators, and financial markets. Second, comparing three portfolio strategies: the classic 60/40, a “safe-haven” basket that blends gold with U.S. Treasuries, and a plain-vanilla “calendar rebalancing” rule that resets weights every three months. Last but not least, offering a ground-level toolbox—three-tier accounts, a five-step checklist, and a case walkthrough—to help non-professional investors protect capital and capture upside in turbulent years.

2. Impact of Global Turmoil on Assets

2.1 . Geopolitical Events

Geopolitical conflicts are the center of the most economic shocks. Here are some examples:

Russia-Ukraine conflicts: Western nations froze about US $300 billion of Russia’s central-bank reserves, and companies with big Russian sales lost ≈US $118 billion in market value in just one month [2]. Sanctions also squeezed global supplies of wheat, nickel, and natural gas.

Israel-Hamas conflict: Fighting in the Middle East lifted Brent crude back above US $90 per barrel, boosted gold prices, and made airline shares fall on worries about higher fuel costs and disrupted flight routes [3].

According to these cases, it can be seen that local conflicts can make a big difference to the global market and cause economic shocks.

2.2 . Macroeconomic Shocks: Inflation and Exchange Rates

Instability can affect the economics at the macro level. During the war, broken supply chains lead to higher costs of production. For example, Ukraine supplied 45–54% of the world’s chip-grade neon gas [4]. After the war broke out, key plants stopped running, leading to tense neon supply for chipmaking, and higher costs and delays in electronics production. Also, governments spend more money on the war, which ends at more money in circulation. In 2022, prices in the eurozone rose by 10%, the highest level since the group was formed—mainly because imported energy became very expensive [5]. Many smaller countries saw their currencies lose value: for example, the Hungarian forint fell 20% against the dollar, and Egypt had to lower the value of its pound twice in the same year. These currency changes hurt companies with international business and make it more costly for countries to repay debts in foreign currencies.

2.3 . Market Chain Reaction: Different Reactions of Stocks, Bonds, Currency, and Commodities

Instability will bring serious chain reactions. Stocks are usually the first domino. In a sample of 27 regional crises between 2000 and 2023, local stock indices suffered a mean draw-down of 17 % in the first three months [6]. The bond markets react in 2 stages: for local bonds, since investors are concerned that the government will need more money, interest rates on the bonds jump and price falls; for safe-haven bonds, their prices go up because investors consider them safe. Currencies make the gap even bigger. Money runs out of the country, and dollars enter the country. The prices of commodities depend on the specific situation. For example, in the 2020 oil-price war, a supply glut made oil prices crash. Also, in the 2022 Russia-Ukraine war, supply cuts sent oil and gas prices soaring.

3. Comparison of Three Asset Allocations

3.1 60 Percent Stocks / 40 Percent Bonds Mix

Put 60% of the long-term money into a broad stock fund, like Standard & Poor’s 500 Index or a global equity index. Put the remaining 40 % into high-quality bonds, like government or investment-grade corporate bonds. This portfolio is very basic and easy. There are no timing or bets. Furthermore, there are two reasons why people like it. First, over the last fifty years a 60/40 mix in U.S. markets has earned about 9 % per year on average—roughly two-thirds of the stock market’s gain but with much less roller-coaster motion. It shows the advantage of stable and high income but low risks. Second, this mic is easy to set up. Two low-fee index funds are enough. Many retirements plan even offer a single “balanced fund” that keeps the 60/40 split for you. However, every coin has two sides. If inflation surges, both stocks and bonds can drop together. 2022 was a recent example: global stocks fell nearly 20 %, and high-grade bonds lost more than 10 %. Also, if a retiree starts drawing income just as both pieces fall, the portfolio can shrink faster than expected. This portfolio is suitable for people who do not want to spend too much money. They want a “set and forget” plan that moderates in a controlled range [7].

3.2 The Safe-Haven Mix: Gold plus U.S. Dollars

Keep a bigger part of money in stocks and bonds. Add 15% gold and 15% dollars. These assets often rise, or at least stay flat, when trouble hits. This is a popular portfolio in the world right now because gold has a 3,000-year history of holding value; it tends to shine when wars, bank runs, or inflation scare investors; the U.S. dollar is still the main “reserve currency,” so when fear spikes, money around the world often flows into dollar assets such as Treasuries. People like this mix for several reasons. Firstly, according to reports from 2000-2023, adding gold and dollars can reduce the worst peak-to-trough loss by about one third compared to a regular 60/40 mix. Second, gold and short-term Treasuries can hold their ground better than many bonds when prices rise. However, there are some disadvantages as well. For example, when bull markets appear, gold may stay still, while stocks jump high. Opportunities may be lost with the relatively lower risks. In addition, the prices of gold are related to the mood of markets. When the economic environment is positive, panic fades. As a result, the price of gold will drop in the following months. In general, for those who worry about big global shocks—war, pandemics, bank crises—and want extra peace of mind even if that means giving up a bit of upside during calm periods. This is a good portfolio [8].

3.3 The Quarterly Rebalancing Rule

For this portfolio, investors need to build a mix first, such as 50 % stocks / 35 % bonds / 10 % gold / 5 % cash. Then, every quarter, check the current weights in the account and balance the money into the original proportion. To be more specifically, if stocks had a hot run in the last quarter, and are now 55 % of the pie, sell a slice and redirect the money into bonds, gold, or cash. On the contrary, If stocks had a bad quarter and fell to 45 %, buy enough to top them back up to 50 %. It sounds like a easy plan, but investors use it for some reason. First, since it is a very disciplined plan and you execute it based on the calendar and requirement, avoiding irrational or emotional decisions. This removes the urge to chase winners or dump losers in panic. Second, investors can control the risks in this way. By trimming what has grown too large, any single asset is prevented from dominating the portfolio. Furthermore, according to global data from 2010-2023, even though the average yearly returns stay close, the quarterly rebalancing rule lost about 16%, that was less than 60/40 mix’s 24%, at the worst situation. Thus, we can see the significant advantage of controlling risks. Conversely, investors who stick to this rule face problems as well. Firstly, frequent trading movements cause extra trading costs. If your broker charges high fees or if you hold tax-sensitive accounts, frequent moves can eat into gains. Secondly, investors may feel a sense of contradiction due to the fact that selling recent winners feels wrong. Rebalancing forces you to do it anyway great for results, tough on nerves. Finally, this plan is suitable for savers with regular paychecks who want a hands-on but still simple plan. Setting a smartphone reminder and using low-cost ETFs makes the process painless [9].

4. Practices and suggestions for ordinary investors

4.1 Three-Layer Account System

Since not everyone has financial knowledge or a lot of money. This section will give some simple but solid suggestions. Take the three-layer account system as an example. Imagine all the money that an investor holds as a house with three floors. On the first floor, daily cash is kept here. For a family, this floor should cover money for at least 3-6 months of daily costs. This floor is used to maintain a family’s living, like shopping, paying bills and entertainment. However, the most important thing is that money on this floor has to be secured and cannot be invested in risky assets. Then, the second floor is for long-term money, consisting of 70-90% of investable money. Investors should buy long-term and stable assets like stock index funds, bond funds, and maybe 10-15 % gold. This layer is for growing money in the long term. The key to this layer is to use low-fee funds, and quarterly rebalancing rule is helpful too. Additionally, investors have to avoid any irrational and urgent decisions caused by any news or policies that influence their minds. A certain degree of turbulence is normal. The third floor is a small “tactical” bucket—no more than 10 % of your investable money—set aside for short-term opportunities. Here you can try a sector ETF, a temporary gold position, or any idea you believe may rise soon, but two rules keep it safe: first, decide your exit before you buy (both a target profit

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and a stop-loss), and second, never dip into the cash or long-term floors to refill it. Because the amount is limited, any loss won't threaten your daily bills or long-term goals, yet a well-timed gain can give your overall portfolio a helpful boost and let you learn market skills with minimal risk. The three-layer account system is really useful for most people. Here are several reasons. Since the rent or food money is secured in layer 1, investors stop panicking when markets drop. What's more, investors can have a clear view of all their money through the "house" [10].

4.2 The Five-step Investing Checklist

(1) Set a clear goal: Put your goals in writing, such as "Retire at 60 with ¥6,000 a month," "Pay a 20% house deposit in five years," or "Save ¥50,000 for emergencies." It's easier to stick to a numerical goal than to "get rich."
(2) Create a budget each month: Deduct your rent, food, and transportation expenses from your paycheck. The remaining funds are available for savings. Every month, try to deposit at least 20% of that free money into your plan.
(3) Distribute your wagers: Never invest more than 10% of your funds in a single stock. Hold a variety of assets, such as bond funds, international stock funds, and possibly some gold. In this manner, other components can help balance it if one falls.
(4) Make the purchases automatically: Make use of a bank setting or app that deposits funds into your account the day following each paycheck. You can avoid forgetting, second-guessing, or attempting to time the market when it runs automatically.
(5) Every three months, review and rebalance: Select one day every three months. See which section is significantly above or below its target weight by opening your account. Buy a little of what got too small and sell a little of what got too big. Check if life changes—new baby, job move—mean you should adjust goals. After that, shut down the app and unwind until the following quarter.

4.3 Case Example — How an Everyday Saver Stayed Safe in a Rough Year

Li Ming is a 28-year-old office clerk in Wuhan who earns 9,000 yuan a month. He began saving in January 2023 by following the three-layer system: he set aside 27,000 yuan—three months of expenses—in a high-yield account for daily cash. Then, he put most new money into a long-term "core" mix of 55% global stock index funds, 35 % bond funds, and 10 % gold ETFs, and kept a small tactical bucket empty until a clear chance appeared. He automated a 1,800 yuan transfer from each paycheck—1,300 yuan to the core funds, 500 yuan to build his cash floor to 36,000 yuan—so the plan ran without effort. When oil prices spiked in May and world stocks fell 12 %, his core dropped only 5 % because gold rose; with fresh savings now sitting in the tactical bucket, he bought a small energy-sector ETF as a hedge. At June's quarterly check, he calmly rebalanced selling a bit of gold, topping up underweight stocks, and holding the energy trade. By September the oil shock faded, ETF was up 25 %, and he sold half to lock in gains, moving the profit into bonds. At year-end his total portfolio stood 7 % higher even though the broad market was flat, proving that cash safety, automatic investing, disciplined rebalancing, and a tiny, well-planned tactical move can help an ordinary earner protect capital and still grow it during a rocky year.

5. Conclusion

This essay briefly talks about global turmoil from three aspects and analyzes their impact on the current economics system. Then, three basic portfolios are compared and recommended to different groups of people. Last but not least, I provide three of the most useful and easy suggestions for public and present them with an example. Meanwhile, there are still some limitations existing. It will be better if the suggestions can be put into practice. Thus, this research is beyond a "saying without acting" level.

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