BEHAVIORAL & FINANCIAL

INSIGHTS

Keeping Perspective

Being an investor during a down market can be demoralizing to say the least. December has been a rather brutal month for stocks and many alternative investments. With the continued volatility, I wanted to ensure we keep things in perspective with the following 5 points.

Having a down year is completely normal

It's been a while and we may have forgotten what it is like to have a good sell off. Every time the market goes down, in hindsight there always seems to be a "really good reason". They say, "this time is different". The media spreads fear. It is important to note that the media's job is not to help you invest wisely, it is to get you to tune in! If you are concerned or fearful, it's because you are watching/reading what the media is pushing. It's addictive and destructive. Shun it like the plague. For investors with short-term horizons, it is natural to turn to the media to try find a comforting answer to the questions as to whether stocks, in general, are at a bottom. Please realize that no one can answer that question definitively, as predicting short-term market movements is notoriously difficult, if not impossible.

Know that corrections often resolve quickly

Since 1950, there have been 37 distinct corrections in the S&P 500 that produced at least 10% declines. Furthermore, the average length of a stock market correction (not including the one we're currently experiencing) is 196 days, which isn't all that long when you're investing over a 10-, 20-, or 30-year period. And of the previous 36 corrections, 22 have righted themselves in 104 or fewer days. Therefore, we might be looking at a very different market by the second quarter of 2019. And even if we aren't, know that the market has the tendency to climb over time, so if you're patient, you stand to not only recover from the brutal month we've been having but come out ahead.

We are diversified for a reason

We don't put an allocation of your portfolio in bonds because we expect the market to go up forever. We do it because we know there will be times when the market goes down, like now. Significant sell-offs (much worse than we have had) provide opportunities to buy high quality stocks at low prices with portfolio additions. Bond allocations provide the cash necessary to do so via portfolio rebalancing. When we buy high quality stocks at low prices, we have the potential to earn larger returns over time.

Your lifestyle is not dependent on the stock market

Your account is set up to weather the storms and help us take advantage of others' fear for your ultimate financial gain. Your current lifestyle is completely unaffected by the volatility… unless you are listening to the media and/or looking at account statements. Don't allow your mood to be influenced by fluctuations in stock prices. As your advisor, I am aware of what is going on. I see the facts, and I filter the news. We are emotional beings – none of us is exempt from that, myself included. The best thing to do during trying times is to trust your plan, understand the recent market movement doesn't change your lifestyle, and tune it out. Interestingly, there have been numerous studies showing that the best performance by investors were by those that forgot they had accounts or had passed way. In other words, they were accounts that remained invested through all types of markets.

The next move is BUY, not sell

If we get a greater downturn from here, we will be encouraging buying. If your investment strategy is to buy low and sell high, then buying is the next move. A more cautious approach to this may be to dollar-cost-average into the market. If you would prefer to sell if things get worse, then your investment strategy is to "sell low and buy high". While selling may seem to be emotionally desirable in the short-term, it has significant costs in the long term.