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What Do We Do Now? A Strategic Response to the Stock Market Tumble

Presented by Frederick Dunbar

Many of the discussions around the market decline so far this year have revolved around two issues: why is it happening and how far will it go? Most people look at the market as an independent entity, trying to second-guess how it will act in the future. Most people will, inevitably, be wrong.

Various articles have been written linking the decline to the rise in interest rates, noting that we're getting close to fair value. If that's the case, and if interest rates stabilize—which may be happening—we should be close to the bottom here. But, as noted above, this could be wrong. So for today, let's assume it's wrong and think about what that might mean.

The most likely reason this would be incorrect is if inflation continues, and the Federal Reserve is forced to keep raising rates even more than the market now expects. Then, with interest rates rising, market valuations keep dropping. On top of that, with higher rates, growth will likely slow and earnings growth will slow as well. Note that this isn't expected. But if it happens, we will see further market declines.

This brings us to the real question. We have a significant decline already, and people are scared. If it gets worse—that is, if something like the aforementioned scenario happens—people will be even more upset. So, given all that, what should we do now?

Stay the Course If You Can

The easy answer, and the one heard most often, is to get out of the market and wait for it to bottom out, then buy in. That's easy to say, but not as easy to do. There are plenty of people who sold in 2008 and were going to buy back in, but never did, plus people in the same boat from 2020. And bounce backs often happen quickly, so you might miss out if you wait too long. In short, if you get out of the market, that may just be the start of your problems because you'll then face the issue of when to get back in.

One way to avoid this dilemma if you get out now is to decide ahead of time when you will get back in. It's easy to get out because you are scared, but it's very hard to get back in because there is always something to fear. Otherwise, you very likely won't do it, and when you do, it may well be too late. For most investors, this ends up as selling low and buying back high—the opposite of what you want to do.

The harder, but better, answer is to consider riding the decline out. If you have enough time, the decline will end (historically speaking), and you should be able to recover your losses and then some. If the people mentioned above—the ones who sold in 2008 and 2020—had simply sat tight, they would be better off today.

During market declines, investors who put money into the market get a chance to buy cheap—and can end up ahead of those who sold. Investors are often better served by being patient and riding out declines.

Focus on the Future

But how do we ride this out? Emotionally, keep your eyes on the long term. If you don't need the money now, you can afford to wait because markets are cyclical, and they eventually recover. It happened in 2000, it happened in 2008, and it happened again in 2020. Declines cause fear, as we are seeing now, but they eventually give way to new growth—which brings back greed—and the market recovers. We've seen this movie before.

Financially, you should consider having your portfolio balanced in such a way that you can afford to wait until the cycle turns, with enough in cash and fixed income to avoid drawing down your stocks.

Unfortunately, this advice is much easier to give than to follow. In both cases, though, this is where your financial advisor can add real value. By helping you to understand long-term prospects—markets will recover—and to design a portfolio that can help sustain you during the inevitable market pullbacks. Reach out to them for help because this, too, will pass.

What do we do now? Consider checking your portfolio with your advisor, make sure you understand it and how it matches your needs, and then simply sit tight. This has been the best strategy in the past, and it's useful guidance whenever markets become volatile.

In other words, one more time—keep calm and carry on.

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