What not to do right now

by Jon Sevenker

This week has been a tough one. Markets went from all-time highs to correction territory (down 10%) in just six trading days. Rarely will you see money taken away so quickly. And since our personal monies are invested in the same stocks, bonds, mutual funds, and ETFs that we use in our clients' accounts, we're right next to you in the trenches.

Originally, this blog post was going to update you on the latest coronavirus news and the potential fallout for the global economy and markets. Instead, we'll use this space to tackle a more pressing issue: how to deal with and how not to deal with stock market corrections.

We were prompted to make this content change after being made aware of a communication issued by an unaffiliated "advisor" to his entire client base, urging them to move half of their investment assets to cash. Interestingly, this advisor suggested their clients "go to cash" using monies held away from their firm, presumably so they can continue reaping high fees on the money they manage. (Seems like a conflict of interest, if you ask me.)

The problem with blanket advice like this is that personal finance is more personal than financial. Is it prudent for a 30-year old client to move half their assets to cash when they still have another 30 years of working, saving, and investing? Even a 50-year old with 10+ years of working and saving left? And how about a retiree who isn't even living off their investments?

The main problem with market timing, which is what this advisor is suggesting, is that it simply doesn't work. Market timing requires getting two major decisions correct: when to sell and when to get back in. The first decision is easy; the second decision is extremely difficult. If you don't like stocks today, you will like them even less if they've fallen further.

In July 2018, we wrote a blog post titled, "On bears and corrections." In it, we provided some perspective on volatile markets and discussed our process for handling these bouts of turbulence. We suggest revisiting this post if you find yourself even slightly queasy.

It's worth remembering:

- Investors come in all stripes, and thus, have a variety of motivations that cause them to buy or sell on any given day. Know why *you* are invested and for how long.
- The stock market is forward-looking. In 11 of 12 past virus outbreaks, the S&P 500 was higher six months after the number of cases peaked.
- Many of the largest up days have been in close proximity to the largest down days.
- "Investing is overwhelmingly a game of psychology," as Morgan Housel writes.
- The market giveth and the market taketh away, but optimists are 37 for 37 in seeing bull markets eventually overcome corrections. As you know, the four most dangerous words in investing are "This time it's different."

While the human toll of this virus is horrendous, we don't recommend that you alter your long-term approach to investing. More often than not, drastic actions that are emotionally-driven become hazardous to your wealth. Tune out the noise. Stay the course. This too shall pass.

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