

The Hardest Thing to Do

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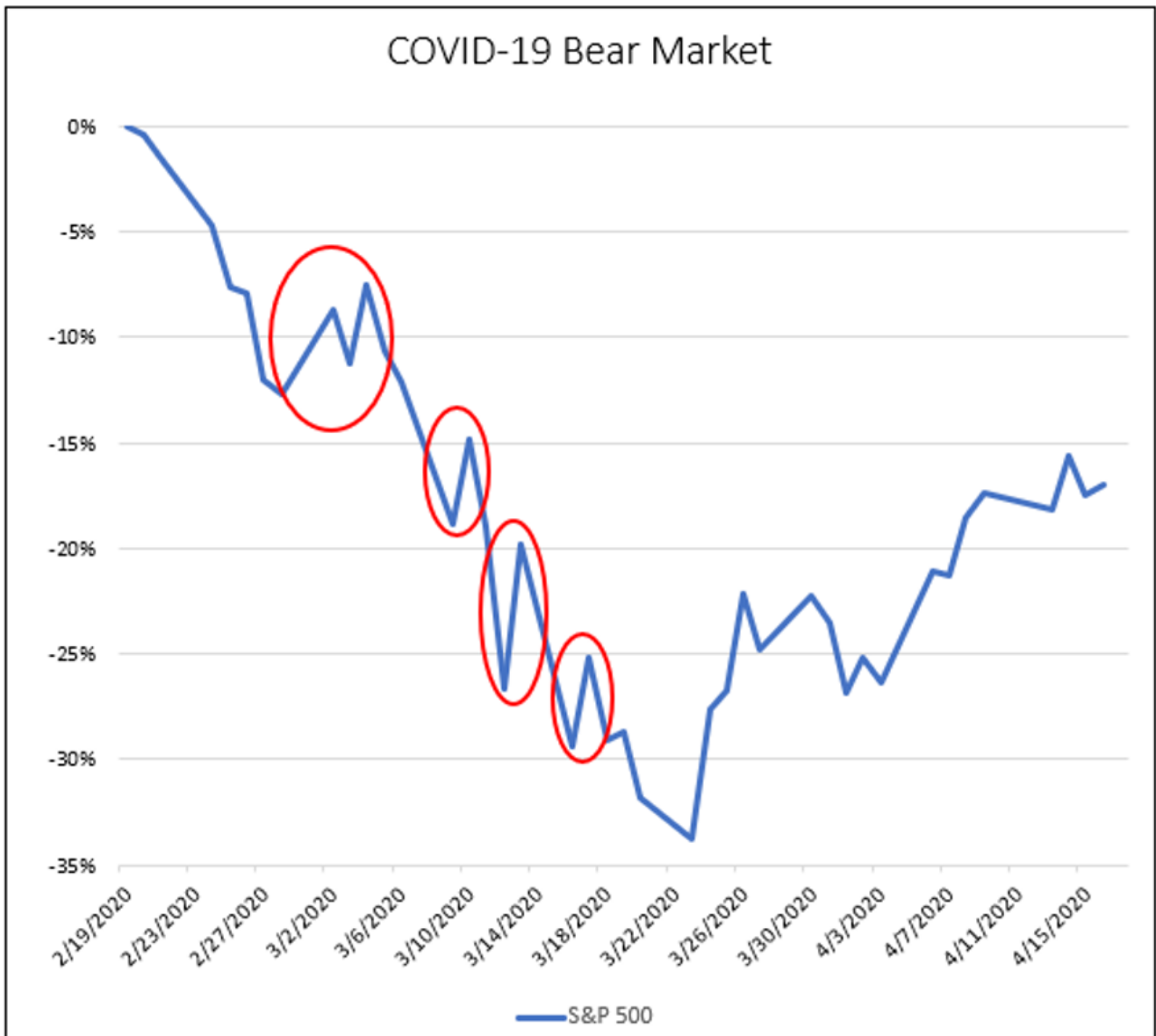
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Most areas of life require us to take action when something goes wrong. If your house catches fire, you should grab a fire extinguisher or call the fire department. If you break an arm, you need to go see a doctor to get it fixed. But there are a few areas where it is best to do the least intuitive thing of all: absolutely nothing. Say you're on a plane and you feel turbulence. You don't need to go tell the pilot to move over so you can start flying. You certainly don't need to grab a parachute and jump out. You probably don't even need to throw any other passengers out to lighten the load. Turbulence is common, the plane was made to handle it, and the pilot has dealt with it many times. So if you just stay in your seat, there's a 99.99999% chance you'll be just fine.

Investing is similar. Watching stock prices plummet brings out the urge to take action. Surely you should sell everything and sit in cash while the market falls further. Or perhaps you should swoop in to buy a stock that has just fallen 50%. Easy money, right? Unfortunately, volatility only creates the illusion that the stock market is somehow more predictable. If anything, it's

probably less so in the middle of a crisis. Only in hindsight is there easy money in the markets.

It can seem obvious that the market will keep going down or that it will rebound soon, but history shows calling tops and bottoms is incredibly difficult if not impossible. Here's why:



Even though we just had the fastest drawdown of over 30% in history (and what may be the quickest recovery in history), there were still four bounces along the way that could have just as easily been the bottom. Once we did hit what has been the low point so far, there was an 18% rally in just three trading sessions! Not much time to decide if this one was for real. Every bear market is like this in a sense. It's never a straight line down with an all clear sign at the bottom. The unwinding of the tech bubble in 2000-2002 was anything but smooth. On the way to the eventual bottom, there were four separate rallies of over 10%, including a spike of over 20%. There was also a 21% rally in the middle of the financial crisis in 2008, not to mention several other double-digit bounces. It would be tough to make a case that any fundamentals or headlines gave investors a sign that the bear market was finally over. The market tends to recover well in advance of the dust settling, but we can only know that after the fact.

If something is bad enough to cause stocks to fall 30% or more, you'll probably have concerns

beyond just your investment portfolio. Investing is hard enough on its own, but when you add in fears about your health, your income, your career, or your plans for retirement, it's easy to get overwhelmed by emotions and make impulsive decisions. In my experience, investors are almost never happy with the decisions they make in the middle of a crisis. Most of us can look at our own track records to confirm this. I know I can.

It's surprisingly hard to do nothing, as many of us have experienced firsthand lately. Staying seated during a crisis goes against our instincts. So how can we be expected to sit still when the world seems like it's collapsing and our money seems to be evaporating? For starters, focus on the big picture. We already knew the stock market is volatile and bear markets are normal. Risk is the reason we get a return. But history has shown the longer you stay invested, the more likely you are to generate a positive return. Next, plan ahead. Having a comprehensive financial plan in place before the storm strikes helps ensure you're ready when it inevitably comes. This will not be the last bear market we have, and there are probably still some turbulent periods ahead in this one. If you don't have a plan, we are here to talk with you about how to build one. If you did have a plan, now is a great time to review it and determine if it suited your needs.

A well-built plane flown by an experienced pilot gives us confidence that we will reach our destination safely. Likewise, we believe building a detailed plan with a trusted advisor is the best way to reach your financial goals. Though it won't necessarily be easy, the right perspective and the right plan can allow you to sit back, relax, and enjoy the ride.

Have more questions about investing? [Click here](#) ^[1]

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Graph source: Morningstar Direct, J.P. Morgan Asset Management, PBS

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