Surviving difficult market conditions

During periods of volatility in the stock market, you may have doubts about your long-term investment strategy. Here are five tips to help you avoid common pitfalls and stay on track toward achieving your financial goals.

1. Declines have been common and temporary occurrences.

Problem: Declines can cause imprudent behavior by filling investors with dread and panic.

Solution: Realize that declines are inevitable and have not lasted forever. History has shown that stock market declines are a natural part of investing. While declines have varied in intensity and frequency, they have been somewhat regular events. It may also reassure you to know that the market has always recovered from declines. Although past results don't guarantee future results, remembering that downturns have been temporary may help assuage your fears. Accept declines as a normal part of the investment cycle.

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2. Proper perspective can help you remain calm.

Problem: Studies show that people place too much emphasis on recent events and disregard long-term realities.

Solution: Even during a market downturn, remember that stocks have rewarded investors over time. The stock market has a reassuring history of recoveries. After hitting lows in August 1939 and September 1974, the Standard & Poor's 500 Composite Index bounced back strong, averaging annual total returns of more than 15% over the next 10 rolling 10-year periods in both cases. Long-term investors have been rewarded. Even including downturns, the S&P 500's average return over all rolling 10-year periods from 1937 to 2019 was 10.47%.

"The market is the most efficient mechanism anywhere in the world for transferring wealth from impatient people to patient people" – Warren Buffet

3. Don’t try to time the market.

Problem: Research has shown that losses feel twice as bad as gains feel good.

Solution: Keep in mind that fleeing the market to reduce losses could mean losing out on gains when stocks recover. The market has shown resilience. Every S&P 500 downturn of about 15% or more since the 1930s has been followed by a recovery. Recoveries have been strong. Returns in the first year after the five biggest market declines since 1929 ranged from 36.16% to 137.60%, and averaged 70.95%. Over a longer term, the average value of an investment more than doubled over the five years after each market low. Don’t miss out on potential market rebounds. Although recoveries aren’t guaranteed, taking your money out of the market during declines means that if you don’t get back in at the right time, you’ll miss the full benefit of market recoveries. Consider staying invested — and don’t try to time the market.

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4. Emotions can cloud your judgment.

Problem: Investors often make poor decisions when they let their emotions take over.

Solution: Stay focused on your long-term goals and carefully consider your options. Have you heard the investment adage, “buy low, sell high”? Strong emotions during market swings can tempt you to do the opposite — buy high and sell low. You may also feel that doing something — anything — during a downturn is better than doing nothing. Although inaction might seem counterintuitive, staying invested in the market could be the better choice. Avoid making rash decisions based on emotions.

5. Strategies to get through turbulent times

It’s difficult to see the value of your investments fall. But during challenging times, try to keep some fundamental investing principles in mind: Look beyond the headlines. Sensational news headlines are meant to grab your attention, but it can be dangerous to let the media influence your investment decisions. Ignore the noise and stay focused on your goals. Don’t forget history. Market declines are part of the economic cycle. Historically, recoveries have followed downturns. Maintain a diversified portfolio. Different investments may go up and down at different times. Spreading your money over a variety of investment types and regions can help reduce volatility in your overall portfolio. Don’t try to time the market. No one knows the perfect times to get in and out of the market. Consider holding quality investments with the potential to rise in value over the long term. Invest regularly, even when the market is falling. Instead of fearing down markets, think of them as opportunities to invest at lower prices. Keep in touch with your financial professional. Your financial advisor can help you avoid making decisions that could jeopardize your long-term investment goals, which often remain unchanged during market declines.

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The right advice can help individuals to better reach their financial goals. Our investment advisory partners can make quality investment advice accessible to all investors, regardless of account size.

Retirement planning can be confusing, which causes many individual investors to make poor decisions. This is exacerbated in the absence of good investment advice. The right advice may make the difference between a comfortable retirement and a struggle.

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Summary

Markets will go up and down but tend to rise over the long-term. Maintain perspective and don't allow emotions to force you into poor decisions. When you are concerned speak with your financial advisor. They can make sure you are properly positioned for your risk tolerance and time horizon.

Disclosures

Indices are unmanaged and investors cannot invest directly in an index. Unless otherwise noted, performance of indices do not account for any fees, commissions or other expenses that would be incurred. Returns do not include reinvested dividends.

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. It is a market value weighted index with each stock's weight in the index proportionate to its market value.

Sources: Capital Group, Morningstar, Standard & Poor's.

Results are calculated on a monthly basis. The index is unmanaged and, therefore, has no expenses. Investors cannot invest directly in an index.

Past results are not predictive of results in future periods.

The Standard & Poor's 500 Composite Index is a market capitalization-weighted index based on the results of approximately 500 widely held common stocks.

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