4 Things to Do When the Market Drops

Being mindful and staying focused on the long term through uncertain times.

KEY INSIGHTS

- In times of market volatility, focus on the things within your control.
- It's important to look beyond market fluctuation and concentrate instead on adhering to your plan.
- Your investments are most likely to weather a downturn with proper asset allocation over a long time horizon.

The coronavirus pandemic has been impacting the global markets as well as our day-to-day lives. With a sharp decline in the stock market, you may feel compelled to do something with your retirement investments. However, trying to time the market or acting impulsively will likely compromise your long-term returns. By selling investments that have depreciated in value, you lock in losses without giving your portfolio time to weather the storm and benefit from any ensuing recovery.

While we can't predict the course of market volatility, we can control how we choose to react. Rather than panicking over market swings, here are four things you can do to help stay grounded and set yourself up for success.

1. Focus on what you can control

The World Health Organization (WHO) recommends that you limit the amount of time you spend watching or listening to media coverage that you perceive as "upsetting."* If you are looking to educate yourself, make sure the information you're gathering is credible—seek out information from trusted sources. Spend time pursuing activities that can distract you from focusing too heavily on the news, such as exercising, reading, or tackling some at-home projects. Make time to take care of your health and welfare (and that of others) by connecting via phone or video chat. With schools and businesses closed and the restrictions of social distancing, many of us are finding new, creative ways to work and spend time with coworkers, friends, and family members.

Take some time to review (or set up) your budget. Look for places where you might easily trim your expenses. Also, consider that with interest rates currently being low, now could be a good time to save money by refinancing your home. Make sure to speak with a financial consultant about the possible pros and cons of making this type of move.

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When managing your investments, look beyond what the market is doing at any particular moment and focus instead on adhering to your plan. Continue to save, invest, and maintain an investment mix that is appropriate for your time horizon. These are all variables you can control—and they are the most likely to determine whether you reach your investment goals.

2. Maintain perspective

A good strategy is to maintain an appropriate perspective when viewing account balances during market volatility and limit the time you spend checking your balance. Equity markets historically have delivered large returns in the years immediately following a bear market, with the potential to deliver double-digit average annual gains for several years.

To better understand how stocks have performed over longer time periods, consider historical performance. Past performance cannot guarantee future results; however, if we examine the S&P 500 Index from the beginning of 1926 to December 31, 2019:

- There have been 85 rolling 10-year periods since 1926. The S&P 500 produced gains in 81 of them and losses in four—meaning the market increased in 95% of the 10-year time frames.
- Stocks produced positive returns in every rolling 15-calendar year period since 1926.
- During the 65 rolling 30-year periods since 1926, the stock market's worst performance was an annualized return of 8.5%.

These historical returns illustrate how stocks have shown resilience and growth potential over the long term.

3. Consider your asset allocation

Holding an appropriate mix of stocks, bonds, and cash can help mitigate the effects of volatility on a portfolio. The precise definition of "appropriate" will depend on your time horizon and risk tolerance, and this definition will change as you get closer to your goal. In general, the longer your time horizon, the more of your portfolio you should hold in stocks. Equities have historically been the main driver of portfolio growth and can help investors accumulate the retirement savings they will need to fund a retirement that could last decades. While equities might post lower returns than other asset classes in any given year, over longer time periods, they have the greatest potential to outperform.

If you have a long time horizon and have managed your allocation carefully, you are likely to weather a downturn successfully. You can even consider rebalancing at some point to restore your equity exposure. While it is difficult to determine when to rebalance, waiting until volatility subsides somewhat is probably appropriate.

However, if you came into this downturn with more equity exposure than appropriate for your time horizon and risk tolerance, you may feel some understandable stress. Keep in mind that you probably benefited from rising markets over the past decade. A good course of action is to refrain from acting out of fear now and reevaluate your asset allocation after the volatility subsides. Rebalancing to your target allocation at that point may benefit you over the long term.

Decreasing your equity allocation for fear of losses could put you at greater risk of running out of money in retirement. Investors attempting to time the market often end up selling after share prices have declined and subsequently buying

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at higher prices. Keeping a long-term perspective on your investments can play a large role in helping you meet your future investment goals.

4. Continue investing

Make the most of the situation. During a market downturn, you're buying stocks on sale, and over time, they have the potential to appreciate considerably. If the crisis hasn't significantly reduced your income, continue to contribute to your 401(k). If you don't have access to a 401(k) account at work, consider signing up for a Traditional or Roth IRA, both of which are also tax-advantaged retirement accounts. Keep in mind that Roth contributions are generally more accessible without penalty in the event of a cash flow challenge.

A good rule of thumb is to contribute 15% of your income for retirement (including any company contributions). If 15% is currently out of reach, start at a lower amount and plan to increase each year. Make sure you're taking advantage of any company match in your workplace plan. Automating investment contributions is a great way to keep your savings goals on track.

In a downturn, it may be tempting to question whether the markets will be as resilient as they have been in the past. While it's impossible to predict the future, history suggests that recoveries follow downturns. In many cases, it is in the early stage of a recovery where the markets post particularly large gains. Instead of allowing your emotions to control your actions, focus on how much you save and keep a long-term perspective on your investments.

*Coping with stress during the 2019-nCoV outbreak: https://www.who.int/docs/default-source/coronaviruse/coping-with-stress.pdf?sfvrsn=9845bc3a_2

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