Tools to Help Protect You in a Market Downturn

It always comes to pass.

We wish we could soothe you and tell you otherwise. But eventually the market corrects and goes through a negative cycle of returns. We're happy to tell you though, it is a healthy event because it normalizes the investment landscape by bringing down high flying investments and pushing out unhealthy ones. Just like our body needs to get sick to strengthen our immune system, the markets need to correct to put things back on track.

You are probably wondering why we are writing about corrections and market downturn; might we know something you don't? To answer the latter, no. To answer the former, we want you to be prepared. Although the market is performing well right now, at some point it must correct. Quoting our friends at Buffalo Funds, "…bull or bear, no market lasts forever. Markets tend to do better over the long term when they experience occasional 'healthy' corrections to reset market valuations."

No one has a crystal ball, and no one can predict when a correction will occur. If they could, they would be famous and fabulously rich. We're sorry but predicting when a correction will occur and when it will end simply can't be done, mostly because corrections are fueled by human emotion which is too complex to predict.

"The investor's chief problem – and even his worst enemy – is likely to be himself," Benjamin Graham.

Decisions made in a panic or because we are afraid, rarely (if ever) turn out well when it comes to investing. If anything, doing the opposite of what our gut says in investing leads to better outcomes. When markets are going down, we need to buy stocks. When they are going up, we need to either ride our quality holdings or trim them down. But these decisions aren't instinctual, and they rub us the wrong way, so by default we simply say, "stay the course."

A famous oft quoted study recently cited by Bloomberg shows the annual gains of a portfolio over the span of time and what happens if you miss the best days of the market. Please keep in mind, the best days of the market can and do happen during a correction. But in a recent article quoting Bloomberg they illustrated if you were invested from January 1998 through the end of December 2017, your annualized return on the S&P 500 was 7.20%. If you missed (sold out) the 5 best days during this period - that is 5 days out of roughly 5,060 trading days - your annualized return dropped to 5.02%. It only gets worse the more days you miss.

The media rarely helps as well. When markets are correcting, it becomes headline news, and the alarming broadcasts take over the airways. During normal times we may only hear a short snippet about the stock market, while during upheaval we hear about it all the time. But the media amplifying market corrections don't make them more concerning, it just draws our attention.

At this point in our careers, we have been through two large corrections and several small ones. We have been through them together and as is always the case, we survive and flourish out the other end. Sometimes history is the only guide we have, and as much of a guide as it is, history shows markets go through cycles and they will occur repeatedly. But the outcome is always the same, it will be okay.

Although we know it will work out in the end, we do plan for these regular corrections each time we sit down and review your financial plan. Each one of our clients is okay, they can weather the storms. In our financial planning it is called the "Bad Timing" scenario and we test the Bad Timing scenario against your weaknesses and the worst possible outcome so no matter what the market does, we are prepared.

Three tools to help protect you in a market downturn:

1. The best insulation against down markets is the financial plan. We have a budget for you. We allocate your assets to give you the optimal chance of success. And we regularly check in and update the financial plan. You are safe and we are prepared.

2. The next best defense is to own quality. Dividend paying quality stocks weather storms better and quality bonds are safer than high yield bonds. Not all assets go down and owning quality helps tremendously. Real estate can be a great buffer as well, other than 2008. All these defenses we have done in our investment strategies.

3. Lastly, trust the process. Don't stress and most of all, please don't panic and prove Benjamin Graham's point. Remember, we are in this together and we are always here to help.

A market correction is coming; we simply can't tell you when it will be. But we can remind and reassure you, they always happen, and we will be just fine. We have a carefully crafted financial plan for all our clients, and the best thing we can do is stick to it. Sometimes clients call us regarding the market corrections - we are fond of telling them to turn off the tv and go outside. Smell the flowers and play with your children or grandchildren. We will be okay just as we have always been okay. Life is about so much more than worrying about money.

We have worked with many of you through some of the toughest markets in history, and we know you won't panic because you rarely do. Erik is amazed many of you retired when he was starting in the business and now you are in your mid-80s. You have weathered storms and you have not only flourished, but you have thrived through it all.

We love financial planning, and we love working with you. Our door is always open. You may come by or call anytime. If you are uncertain, we can update and review your financial plan. We are here for you because that is what we do, and it is always a pleasure to be of service.