Suggestions for keeping calm in uncertain times

APRIL 11, 2022 *by* **DEAN STANGE**

The last two years have provided investors with multiple obstacles, some of which haven't been seen for many decades: global pandemic, war in Europe, significantly rising inflation, rising interest rates, fears of recession, etc. It may be difficult for investors to stay positive about short-term or long-term investing in this environment.

However, it's important to remember that markets have been through these types of events before, even if not in recent memory for many of us.

The U.S. stock market has averaged roughly 10% per year since 1926.Since then, we have been through every kind of market situation possible: depression, world wars, social unrest, high inflation and so on. We could pick just about any day during that time and come up with bad things going on around the world that might make it feel like a bad idea to invest on that day. This certainly feels true today. Yet markets have always worked through these events, pricing in the ability of businesses to produce future profits and generating significant returns over time.

The keys to disciplined investing

Here are some suggestions to get through these difficult economic and geopolitical environments while keeping a proper perspective on global events and your portfolio:

1. Stop looking at your portfolio results so often

What's the easiest way to reduce volatility in your portfolio? Stop looking at it so often! This tongue-in-cheek response may seem overly simplistic, but it is very powerful. If you are truly invested for the long term, it doesn't matter what your portfolio does in the next few weeks or months, or maybe the next few years.

Particularly, don't look at your portfolio results on big market down days. It will only create unnecessary anxiety when the results are going to change over the next weeks or months anyway.

If you do need to check performance, focus on the percentage results, and try to ignore the dollar amount of a decline. Percentages seem more abstract, whereas dollar amounts will feel much more like actual money lost. Of course, if you're not investing for the long term (3-5 years or more), you probably shouldn't be investing funds in the stock market anyway.

2. Try not to focus on the worst-case possible news outcomes

It's easy to get stuck in narratives of 24-hour news and talking heads that suggest we are headed to World War III, global economic recession, 1970s' style inflation and the like. However, the worst-case scenarios for many of the events is not the most likely outcome. There are a wide range of possible outcomes for all the current economic and geopolitical issues currently facing investors. Despite the constant opinions in the media, no one really knows how all these issues will resolve.

A recent example to consider is how quickly markets recovered in 2020 when the outcome of the pandemic was uncertain and many people feared the worst-case outcome. Markets are daily weighing the probabilities of these outcomes and the impact on corporate profits, which is why markets can move significantly when those probabilities change. This information overload, particularly with negative news, can skew your thinking process and lead to poor decisions.

3. Raise extra cash

If you are feeling anxiety about your financial situation, you may want to raise extra cash to cover six months to one year of your expenses. Having this extra cash cushion may allow you to feel more security in not having to withdraw from your portfolio if it declines significantly and you need cash.

4. Keep recent losses in context of overall long-term returns

While markets have declined so far in 2022, overall market performance for the last 10 years has been very positive. The U.S. stock market has had positive gains in the last three years prior to 2022, and nine out of the last 10 years. Given all the recent positive market and portfolio performance in the last 10 years, it's easy to forget that markets are generally positive in about 75% of calendar years and decline in about 25% of years.[2] It's a reminder that volatility and occasional negative years are normal regardless of the reasons for it.

5. Reduce risk in your portfolio

If the current state of uncertainty is making you feel regular anxiety about possible short-term declines in your portfolio, consider reducing your allocation to stocks. This is not market timing. It's simply an acknowledgement that your risk tolerance may have changed, or you were too aggressive.

Of course, a lower allocation to stocks likely means lower long-term returns. Keep in mind you get paid for dealing with market uncertainty and volatility by earning higher rates of return in the stock market than risk-free cash. There is no free lunch — if you want higher returns, you must generally accept more risk.

6. Is there a "safe" alternative to your portfolio?

If the current market uncertainty makes you feel like you want to run to the safety of cash, consider whether cash or other alternatives provide any opportunity for meaningful return. Cash is earning very little in this low interest rate environment and will certainly lose value over time to inflation.

In addition, if you move to cash, you then must make the next decision of when to get back into the markets. No one can provide an "all clear" signal to tell you when to safely get back in the stock market. Again, consider how quickly the market recovery occurred in 2020, leaving those behind who moved to cash near the bottom of the market downturn. While it can be difficult at times like these, it is important to stay disciplined in your approach.

Disciplined investing in uncertain times

We often preach discipline as an important principle. Emotions and investment plans alike can be severely tested by market volatility and external events like those occurring now. Investors have been reminded frequently in the last two years that significant market corrections are a normal part of long-term investing.

At the height of the fear and the bottom of the market decline in March 2020, it would have been easy to succumb to that fear and sell out. However, we urged our clients to stick with their plan. In fact, we were rebalancing accounts, which in part meant buying stock funds, for many clients in March and April near market lows. This discipline to our investment philosophy allowed those clients to recover more quickly as the markets rebounded.

We also placed thousands of trades to harvest losses throughout the year for the tax benefits. This discipline to harvest losses when they occur provided many of our clients with the benefit of having both portfolio gains for the year and tax losses to deduct on their tax return in 2020. We continue the same approach today.

From our perspective, there are parallels between 2020 and this year that keenly reflect the value of investment discipline. In years with normal volatility and market gains, such principles might sound old-fashioned to some. It’s in years like 2020 and again now where we see its true value and merit.

The concerns over the economy and geopolitical events will likely be with us for some time. There is bound to be more market volatility ahead. Learn about Wipfli Financial Advisors, our investment philosophy and how we can help you stay disciplined during uncertain times.