Should I stay invested in the stock market?

Q: When is the economy going to recover? Should I stay invested in the stock market?
Marilyn

A: Do you have a custom investment strategy? Are you willing to stay with your plan? An appropriate financial plan will help you meet your financial goals even when you don't know when the economy is going to recover.

Your investment strategy must be intentional, not an accidental collection of stocks recommended by friends or Cramer. Passive mutual funds should be diversified and have a cohesive strategy based on (third party) academic research.

Know that 80% of actively traded large cap mutual funds don't out-perform passive (SPIVA 12-2019). For more on active versus passive investing, check the SPIVA scorecards that are published bi-annually.

Know your strategy so you can believe in it when the economy seems to be in a tailspin. When you feel like you can teach your investment strategy, then you can say that you really understand it. Stress causes us to think irrationally; and selling low locks in losses.

If your investment strategy let you down in March, then consider a 'bucket approach'. One bucket for short term and another for long term. The short-term bucket may comfort you enough to ignore the noise, or better yet, rebalance the long-term bucket for growth during challenging times.

Volatility and down cycles in stocks aren't just common, they're necessary. Stock prices are a function of supply and demand. If investing in stocks didn't involve risk, then financial theory tells us returns would be limited. Over time, stocks provide higher returns than CDs because they go down as well as up.

Volatility of portfolios (except CDs) is inevitable; but volatility may be managed. Consider a moderate portfolio that invests half in stock funds and half in bond funds. When you see the negative headlines, your first thought is to freak out.

Then you remember your new balanced portfolio. Instead of wondering if the economy is going to recover, know that it will. And instead of making an emotional decision to sell low, remind yourself that you have an investment strategy. Look for tax opportunities and rebalance.

Black swans are unpredictable events and 9/11 was a good example. Perhaps a pandemic is another good example since few of us have experienced this before. Strategically planned portfolios are designed to weather these events.

Update your expenses and earmark cash for pending big-ticket items. Always keep enough cash on the sidelines, review and understand your investment strategy and tolerance for risk. Do this when times feel normal. An appropriately designed portfolio will carry you through.

If it helps, S&P 500 bear markets (defined as a 20% drop in value) have averaged about 16 months during the last 50 years. Patience and fortitude are helpful.

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