Weathering the Storm

Volatile periods like this year can feel unnerving; however, reacting to market downturns can drastically derail progress towards financial goals. Fortunately, history underscores several strategies that can help investors weather these storms. Below we review a few key strategies for easing anxiety in uncertain times and continuing to make progress toward financial goals. The first step is having a plan and sticking to it.

A Well-Built Plan

Investment plans are not the same for everyone. Each of us has a different financial situation. And we each tolerate different amounts of risk. Our goals, how our brains are wired, and our experiences all influence our appetite for risk. Yet everyone faces the same ups and downs in investments markets. Maintaining a focus on a specific plan provides the appropriate perspective. What does this “focus” look like?

- First, ask, “ Why am I investing?” A plan without goals is not a plan for the long haul. For example, someone retiring in thirty years may be able to bear more risk in order to maximize portfolio growth than someone hoping to retire in three years. Remembering these goals will help provide discipline.

- Next, consider how stock market fluctuations affect comfort level. Does a market drop inspire fear and lead to more conservative behavior? Or, alternatively, is a drop viewed as a long-term opportunity to buy low? Portfolio conservatism may help ease any angst when the stock market falls. But this must be balanced by a sense of losing out when the stock market rises. Reflecting on your specific risk tolerance ensures a plan that is risk appropriate.

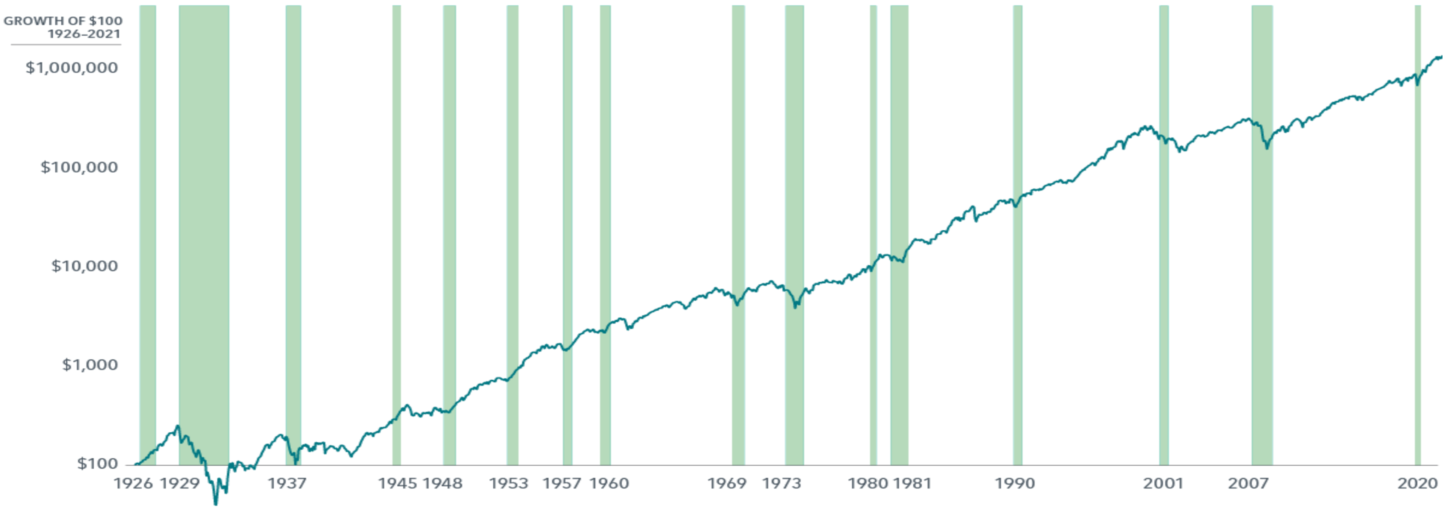
- Focus on the things you can control, like saving more and sticking to a budget. Although it may feel like you are taking control when you make changes to your investment plan, trying to time short-term moves is most often harmful and has more in common with gambling than with a long-term investment strategy. If you find yourself tempted to make a change, think carefully about whether the change is being driven by media comments and market moves, or whether its is driven by goals or life events.

Recession and Bear Market Returns

Changes in the economic cycle create a compelling urge to make large portfolio moves. However, a century of economic cycles teaches that we typically enter recessions before economists determine them and that market recoveries generally begin well before recessions officially end.

That is, markets tend to fall in advance of recessions and begin climbing earlier than the economic recovery. As the chart below shows, market returns are often positive while in a recession. Thus, making defensive portfolio moves while in a recession may cause an investor to miss the large market jumps typical at the start of bull markets. As shown below, the market often begins to climb during the middle of recessions when the news seems bleakest. Recessions are shown as blue bands in the chart.[1]

Market Returns Over a Century of Recessions [1]



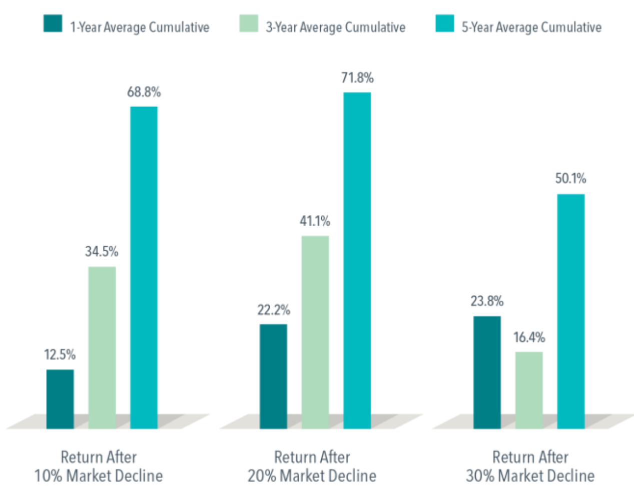
Research by Nobel Prize winner Dr. Eugene Fama shows U.S. stocks have averaged strong returns over 1-year, 3-year, and 5-year periods following steep declines (1926 – 2021).[2] On average, over the past 96 years the S&P 500 Index has rebounded 22% in the year following the point it crossed into bear market territory (defined as a 20% decline from the previous peak). And in the 5-year window following bear markets, stocks average returns over 70%.[2] Remembering that powerful recoveries tend to follow bear markets can ease fears and provide another reason to remain invested.

A Forecast, a Wish and a Worry

Avoiding media predictions and advice is also critical for weathering economic storms and staying on course. Often during troubling times, investors will look to prognostications for insights and direction. However, media predictions are not foretelling a future, and they often generate fear and worry.

Whenever the government releases new data on unemployment, inflation or interest rates, media personalities and "experts" try to predict the future. Some will try to pass off their predictions as forecasts. However, most of these forecasts are not predictive.

Total U.S. Market Return [2]
July 1926 – December 2021



True forecasting comes with a high degree of confidence in the outcome and is based on data and well-proven models. When someone in the media "forecasts" the S&P 500 Index will hit a certain number, inflation will reach a certain level, or which stocks will beat others, they are not forecasting, they are wishing. And when people are "forecasting" a stock will fall at a certain time, they are worrying. Much of what we hear, see and read are wishes and worries.

Predictive Modeling

While short-term market forecasting has been proven to be nearly impossible, predictive portfolio projection modeling does provide reliable insights into investors' ability to meet goals and maintain lifestyle throughout retirement.

At Sharper Granite we use sophisticated modeling tools, advanced statistics and customized inputs to create reliable models for our clients. These projections demonstrate the range of possible outcomes for a portfolio with high confidence. Our tools allow us to realistically model long-term returns in equities, real estate, long-term bonds, short-term bonds, and cash, and factor changes like inflation and rate hikes.

Our modeling capabilities also allow for easy adjustments to personal financial changes. These include changes to asset allocation, job situation, inheritances, taxes and various life events while accounting for inevitable recessions and other possible market changes. It is a powerful tool for anticipating how life changes and economic cycles will affect a plan's long-term financial health. Our customized models allow clients to assess progress in good times and bad, enabling greater discipline through all economic cycles.

Relying on predictive modeling for guidance and ignoring media forecast can help deliver confidence to weather the latest market storm. Sticking to your plan and remembering that strong returns usually follow bear markets can also help. For more information, speak to your advisor or see the article on the Sharper Granite website under the Research tab, "Modeling an Uncertain Future."

Notes and Acknowledgements:

1. Dimensional Fund Advisors, Advisor Research December 31, 2021
2. Fama/French Total US Market Research July 1, 1926 – December 26,2021