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Todd Rebori

When Markets Go Viral

The new Coronavirus, and fears of a potential global health pandemic and economic slowdown, recently infected the financial markets. In late February, the U.S. stock market experienced a swift decline, unlike seen since the global financial crisis of 2008 – a different contagion of the financial variety. The steep and rapid nature of the decline, accompanied by enormous up and down market swings from day-to-day, reflects the immense amount of uncertainty that the virus has injected into the global economic and earnings outlook. While the net effects may not become evident for months or longer, the stock market has re-evaluated what had previously been a positive outlook for 2020.

Whether the impetus for market declines and volatility is public health-related, geopolitical or economic in nature, market fear can often be contagious. As a result, it can be natural to ask the question, "What should we do now?" The better question may be to ask, "How have we prepared?"

The Best Medicine is Preparation

Instead of focusing on how to react to volatile markets, we believe the focus should be on how to continually prepare for the inevitable volatility that occurs when investing in stocks. We believe that preparing for challenging market environments requires focusing on what you can control, which is best served by:

1. **Remembering How Markets Work –** According to CFRA, since 1945, there have been 24 market "corrections" of 10%-20%, with 12 "bear markets" where declines were greater than 20%. The most recent correction, which you may have already forgotten about, occurred from September through December of 2018 when the market lost over 19% before recovering. "Recovering" is an important word, because in general, markets always do. It typically takes around 4-months to recover losses from "corrections," on average. However, the recovery from "bear markets" can be anywhere from 2-5 years. It is yet to be determined what type of decline we are experiencing, but being forewarned with relevant historical perspective can lead to being psychologically forearmed to deal with challenging markets.

2. **Diversifying** – As stocks have declined, safe-haven investments like bonds, gold, and other alternatives have increased in price this year, which plays a valuable role in reducing portfolio volatility. Diversifying an investment portfolio using other asset classes that behave differently can often help to cushion the losses from the stock market, allowing you to withstand the ups and downs more effectively and remain invested over time.

3. **Aligning Your Portfolio with Your Comfort Zone –** Investor behavior is an essential factor in determining investment outcomes since challenging market environments impact different people in different ways. Do you know how much short-term risk you are willing to accept, in the form of potential portfolio loss, before it makes you uncomfortable and wanting to abandon your strategy? Identifying your personalized "comfort zone" can help align you with a portfolio that has the right balance between the short-term risk and long-term rewards that are part of investing. Doing so may help you maintain the critical discipline needed to remain committed to your long-term investment strategy.

4. **Investing with a Financial Planning Mindset** – An effective financial plan may provide you with the comfort of knowing short-term market volatility has a negligible long-term impact on your planning objectives by stress-testing for the large variety of investment outcomes that will likely occur over time. The proper planning mindset may help you avoid potentially rash and harmful short-term financial decisions.

We, nor anybody else, can know how the virus or a different exogenous event may further impact the economy and the markets because it is outside of our collective control. But as we like to say, it is important to "control the controllable." We believe controlling how we remember, diversify, behave, and plan can go a long way in helping one survive and potentially thrive as a long-term investor.

Todd Rebori is a Principal for AtwoB, an independent registered investment adviser located in Katonah. www.atwob.com | 914-302-3233. *This article is for information only and should not be considered financial planning or investment advice. The views expressed in this article are as of the date of the article, and are subject to change based on market and other conditions. This article contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected. A copy of AtwoB's current written disclosure statement discussing AtwoB's business operations, services, and fees is available from AtwoB upon written request.*