THE Wealth REPORT

Market downturns are an inevitable part of the investing cycle. Investors who see them as an opportunity for growth and stay the course are more likely to achieve their long-term goals.

RIDING OUT THE BEAR MARKET

Don't let market downturns derail your long-term goals.

Overview

"What goes up must come down." Investors were brutally reminded of this phrase in 2020, when the bull market run of the 2010s came to a screeching halt at the start of the pandemic. Markets resumed their upward trajectory in 2021, only to reverse course once again at the start of 2022.

Since then, the three major benchmark indexes — S&P 500, Nasdaq and Dow Jones — have struggled to regain momentum. In late September, the Dow was squarely in correction territory (down 10%-20%), while the S&P 500 and Nasdaq remained mired in a bear market (a decline of 20% or more).

Market Returns	
Jan. 1, 2022 – Sept. 28, 2022	
S&P 500	-21.97%[1]
Nasdaq	-29.36%[2]
Dow Jones	-18.31%[3]

Market Drivers

While bear markets are never welcome, they are a natural part of the investing cycle, which is marked by peaks and valleys. Both the highs and the lows are driven by various events, many of which we've experienced so far this year. They include:

- Interest rate changes
- Fluctuating levels of national debt
- International trade relations
- Domestic and international politics
- Global events that threaten economic stability
- News headlines that shape investor and consumer sentiment

Although these events can drive down markets and cause short-term pain for investors, it's important to remember that they can also create opportunities for growth. For example, a market downturn means investors can add stocks to their portfolios at lower prices. In the words of Warren Buffett: "Bad news is an investor's best friend.

It lets you buy a slice of America's future at a marked-down price."[4]

The other good news is that there's always been light at the end of the tunnel. Bear markets have always given way to bull markets — eventually. And investors have typically come out ahead in the long run. Consider, for example, the S&P 500. Between 1928 and 2021, the S&P 500 experienced 21 bear markets.[5] Despite those pullbacks, the index posted an average annualized return of 11.82% during that period.[6]

Actions to Take in a Down Market

Still, even though history has told us down markets come back, it can be difficult to know what actions to take when our portfolios have taken a hit. Here are our recommendations for proactive steps to take as you ride out the current bear market:

1. Diversify.
Spreading your money across a wider range of asset classes and sectors can help reduce the impact of a market decline, particularly if certain industries or asset types decline more than others.

2. Use dollar-cost averaging.
If you're in contribution mode, you'll likely want to take advantage of lower stock prices since investing during a down market allows you to buy more shares. Keep in mind, however, that regular investing doesn't ensure positive returns, and you'll need to consider your personal appetite for risk should prices fall further.

3. Consider converting to a Roth IRA.
A major stock market correction allows you to pay less in taxes when you convert from a traditional IRA to a Roth IRA. You will owe taxes on the amount of the conversion, but that amount will be lower since the value of the stocks in your portfolio is reduced.

4. Rebalance for your risk tolerance.
Portfolios can often become unbalanced during both bull and bear markets. Growth or losses in certain asset classes or industries could create a mismatch between your holdings and your risk tolerance. You might want to consider rebalancing your assets to protect against unnecessary risk while still taking advantage of growth opportunities.

Final Thoughts

Finally, the negative headlines and news surrounding a down market can create anxiety for investors, especially those approaching or living in retirement. Your financial advisor can walk you through all the "what if" scenarios and help you implement strategies to keep your financial plan on track. They may even tell you the prudent thing to do is nothing at all, and that staying the course is your best plan of action.

Remember: Your advisor serves as your financial partner during both bull and bear markets. If you have concerns or questions about the current market environment, contact your advisor to schedule a time to talk.

[1] Morningstar. "S&P 500." https://www.morningstar.com/indexes/spi/spx/performance. Accessed Sept. 29, 2022.
[2] Morningstar. "NASDAQ Composite PR USD." https://www.morningstar.com/indexes/xnas/@cco/quote. Accessed Sept. 29, 2022.
[3] Morningstar. "DJ Industrial Average PR USD." https://www.morningstar.com/indexes/dji/!dji/quote. Accessed Sept. 29, 2022.
[4] Theron Mohamed. Markets Insider. May 17, 2020. "Warren Buffett has weathered multiple market crashes. Here are his 8 best quotes about investing in tough times." https://markets.businessinsider.com/news/stocks/warren-buffett-10-best-quotes-investing-market-crashes-2020-5-1029191115#bad-news-is-an-investors-best-friend-it-lets-you-buy-a-slice-of-americas--future-at-a-marked-down-price-5. Accessed Sept. 29, 2022.
[5] Yardeni Research, Inc. Sept. 28, 2022. "Stock Market Historical Tables: Bull & Bear Markets." https://www.yardeni.com/pub/sp500corrbeartables.pdf. Accessed Oct. 3, 2022.
[6] J.B. Maverick. Investopedia. Aug. 16, 2022. "S&P 500 Average Return." https://www.investopedia.com/ask/answers/042415/what-average-annual-return-sp-500.asp. Accessed Sept. 29, 2022.

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