Wealth Notes

By Rob Wrubel

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Wealth Notes offers an insightful look at financial planning topics. This quarterly column reviews current financial planning trends and seeks to educate you about planning and investment opportunities. This column covers a wide-range of topics to help you make informed financial planning and investment decisions.

Five Techniques To Handle Market Turmoil

How long does it take for you to go from feeling like a champion investor to feeling beat up and wondering if you'll ever make money again in the stock market? For most of us, it took just a few minutes as the stock market opened lower in the US the week of August 12 and then kept fluctuating as a reaction to the latest tariff talk.

There are times when we sit in our offices and wonder how the market can move so far and so fast in either direction. We do not panic sell or buy and we know that, on average, most active investment companies do not make these irrational decisions. The world today is more driven by index funds and those funds do not have any choice but to sell to handle investor transactions and rebalance to meet their investment metrics. We also know that hedge-funds and other investors that use leverage-driven market activity on any given day and that those funds often don't care about the businesses they own; they just care about deriving profit from market movement.

All of us love investing when we see an instant return on our money and 2019, until a few weeks ago, felt great. It seemed like every day the markets went up and our account balances with it. Experienced investors know to enjoy these moments but not get too caught up in them as they know there will be some downside somewhere along the way. They know that stocks markets, historically, trend upward and that patient investors tend to make more than those that jump in and out of the markets.

New and experienced investors can both use some simple techniques to keep on track during times of market turmoil.

1. Keep cash available.

Markets move up and down every day and some days more than others. Having cash in your checking account to cover three to six months of expenses means you don't need to sell in a down market to have money available for food, gas and living. Retired investors sometimes keep as much as a year of cash ready to go to give portfolios time to generate income and recover from any down markets.

We are believers that investing success comes from time in the market and not from trying to time the market. This month, a tweet and its response caused a market selloff. A deal next week, companies reporting profits, a change in interest rates, higher consumer spending and other economic news could restore all that was lost. It happened that quickly in December 2018.

Investors who keep funds available to cover expenses don't have to worry about the market each day – they are more comfortable about having their needs met.

2. Review your long-range planning.

As a financial planner, I want to help my clients understand whether or not they are "on track." It's a common question I get in reviews. We meet with people every week – sometimes after good market runs and sometimes after days like we just experienced. If you're really concerned about the impact any one day or month of returns have had, come talk to us and let's review your financial plan. It's possible, but unlikely, that these short market movements have changed your expected outcomes. We can even model lower future returns to help you get comfortable knowing how market returns impact your goals.

If you're not close to retirement, we can review how having a growth portfolio can lead to having enough to retire comfortably. If you're closer to or in retirement or have assets that you need for income, we can review how much money comes off the portfolio regardless of daily price movements. We can look at how you "need" to be invested to meet your goals and try to match that with how you "feel" about investing.

Rob Wrubel is available for individual appointments.

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3. Look at an investment mountain chart.

Several companies provide us with charts showing how you would have done if you invested in their funds (or some standard index) going back decades. These are amazing to review as they cover so many world events. You can take different time periods to see that some pretty intense times happened in world history. The Great Depression, World War II, the Vietnam conflict, the gas crisis and the Gulf War, for instance. Investors who stayed invested managed to earn money through so many different market cycles and cataclysms.

4. Check your investment cash flow.

Our portfolios have instruments in them that generate income. Stock and bond prices fluctuate. This can come from bond and bond fund interest payments or stock and stock fund dividends. Dividends (unless cut) pay out no matter what the stock price. Apple paid $0.77 per share on August 15, 2019 (https://investor.apple.com/dividend-history/default.aspx). If you have 1000 shares of Apple, you will receive $770 for the last quarter That could be income of just over $3,000 per year. That happens whether Apple's stock price is $190 per share or $175 per share. It's real money you can reinvest, keep in cash or spend.

Looking at expected portfolio cash flow can help reduce market concerns. It helps to see that $500,000 account pays out $10,000 in the next 12 months (just for an example). That might not be enough to hide a 3% loss like many stocks had on August 14, 2019 but that cash flow sure cushions the blow.

5. Look outside your window.

Several studies show that looking at trees and walking in areas with trees can reduce stress levels. A Japanese study showed that walking or looking at trees reduces cortisol (a stress hormone). https://www.psychologytoday.com/us/blog/the-fallible-mind/201605/stressed-out-science-says-look-some-trees.

Another study shows that just looking at images of trees reduced stress. These researchers had participants prepare to deliver a speech and perform subtractions tests in front of people – an experiment that would certainly raise stress levels in most people. https://www.sciencealert.com/urban-tree-coverage-can-significantly-reduce-stress-study-finds.

We can help reduce your financial stress by reviewing your assets, projecting income and developing strategies to reduce debt and increase wealth. You can take a few steps outside (or just to your window) to reduce overall stress by looking at some trees and turning off CNBC, FOX and your twitter feed along the way.

We cannot control the market (I know, I wish I could) but we can control our responses to it. For some, that response does mean lowering investment risk and potential for growth but for most, it means keeping the plan and portfolio in place as markets correct and reboot. Call us and we can review your accounts and steps we might take, or not, during times of market disruption.

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