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SKETCH GUY

Your 5-Step Guide to Navigating a Scary Stock Market

Strong feelings are fine. You're only human. But remember why you invested in the first place. The best action to take might not involve your portfolio.

By Carl Richards

June 26, 2020

Investing is scary right now.

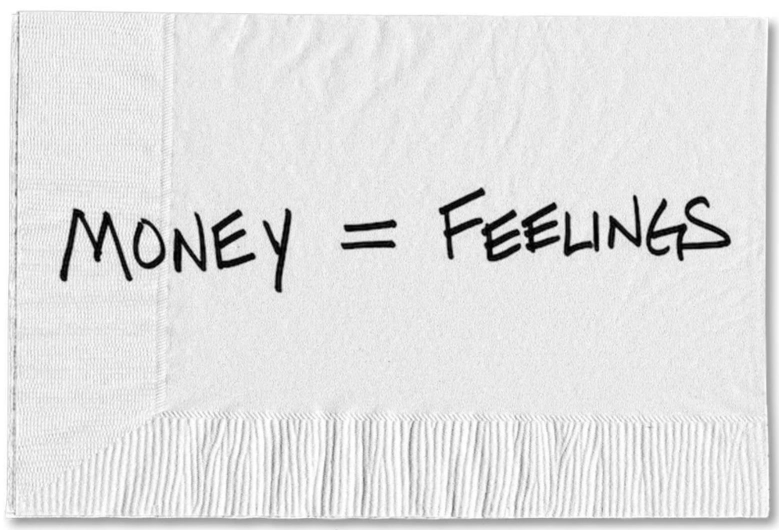
It's been hard to ride the stock market roller coaster of the last couple of months and remain calm. The S&P 500 fell by a third in just over a month and then spent the spring lurching back toward where it had started.

Professional investors have plenty of guesses about what will happen in the market during a pandemic-fueled recession that is likely to last a while. The lack of consensus is not comforting. At the same time, protests persist about race and equality in the United States against the backdrop of a radically uncertain political environment.

Compared with 2001 or 2008, 2020 feels far less stable.

The big question for investors is what to do about it. To answer that, I've laid out five steps for dealing with scary markets. Let's dive in.

1. Give yourself a break



Carl Richards

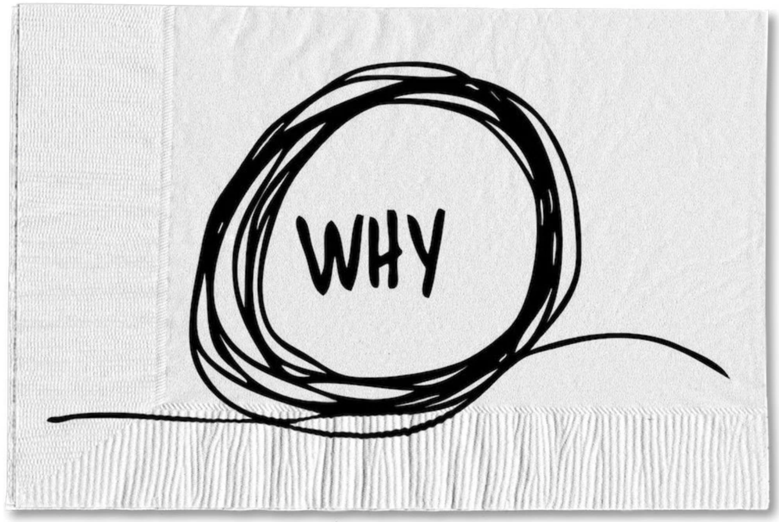
The fact that you are feeling scared and uncertain is normal. It's human. So the first step is to feel all the feels that come with scary news and scary markets. Just look at the news; how could you not be scared?

I know it feels weird to start a conversation about money by talking about feelings. We've been trained to think money equals calculators and spreadsheets, but money is more than that.

When we're scared about the markets, that fear points to something much deeper than numbers flashing across a screen. What we're really worried about is paying our mortgage, sending our kids to college or running out of money in retirement. When we talk about the markets, we're talking about our goals, dreams, fears and hopes. Thinking about money keeps us up at night, and it's part of the reason we get out of bed in the morning.

So before we get to the facts and figures, take a minute to be OK with feeling scared and unsure what to do next. Give yourself a break for being human. We have enough to work through without feeling guilty or dumb about our emotions.

2. Remember why you invested in the first place



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I'm going to assume that you invested your money based on some well-established principles of portfolio design.

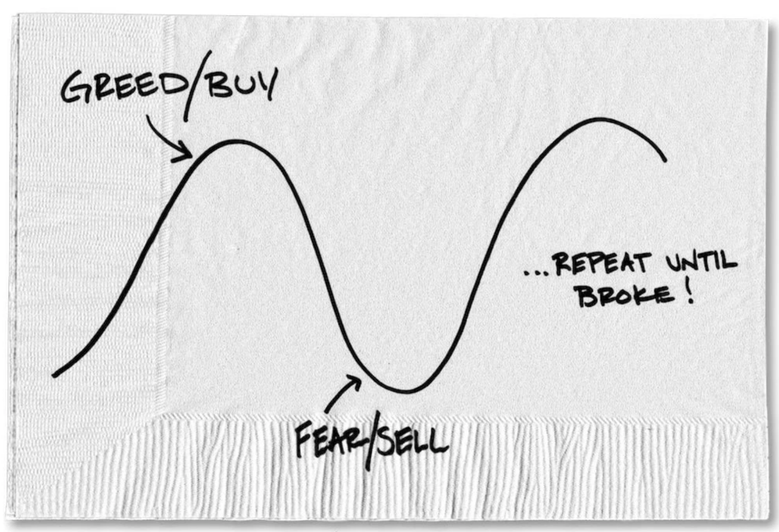
That means you're investing in stocks all over the world, and not just in one country where you won't be diversified. You're keeping trading costs and fund fees low. And the percentage of money that you've put into stocks is directly related to your long-term goals — and the average annual return you'll need to meet them.

(That sounds like a lot of work, but even if you just heaped your money into a good-quality target-date fund, you've probably checked all those boxes.)

If you're invested that way, the very best thing you can do right now is remind yourself about the goals. Why did you invest like this in the first place?

Write them down, maybe. Go on. They might be things like more time with your kids, financial security in retirement or making large charitable donations. But there's no wrong answer, unless you haven't set any goals at all. And if you haven't, now is the time.

3. Revisit the investment process



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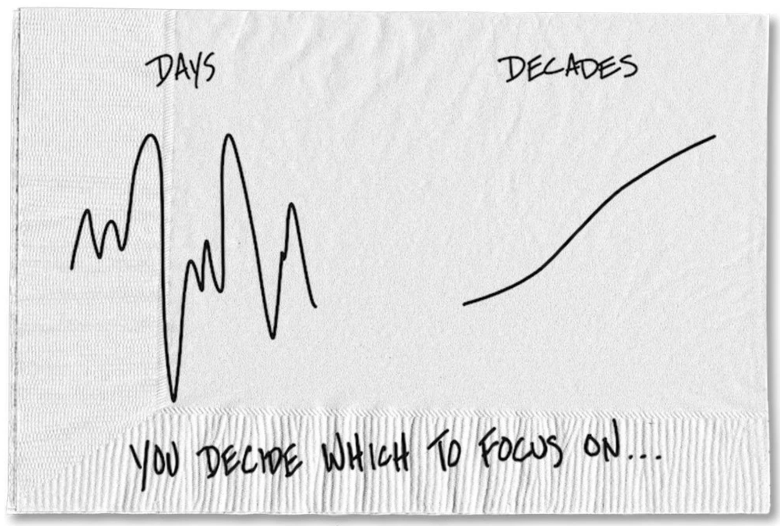
Perhaps you chose your investments using historical stock market data. That data — and this is super important — reflected the reality that markets go up and down.

Any period of history of any length would show that there was absolute certainty that wildly unpredictable periods like this would occur. Scary markets are quite literally part of the plan, since the stocks that give you decent returns over decades come with risk that their prices will bounce around a fair bit in the shorter term.

As long as your goals remain the same, your carefully constructed investment plan still represents your best chance of achieving those goals. Especially when it feels scary.

What definitely does not give you the best chance of achieving your goals is blowing up a well-designed portfolio because it has lost some money on paper. Here's hoping you didn't do that in March or April. Remember, going up and down is what the market does. It's normal.

Now I know this time feels different. It's a worldwide public health crisis, after all. Fair enough. But "this time" is always at least a little different, whether it's internet froth or terrorism or a housing bubble. So far, however, the scary periods have all ended the same way: They stopped.



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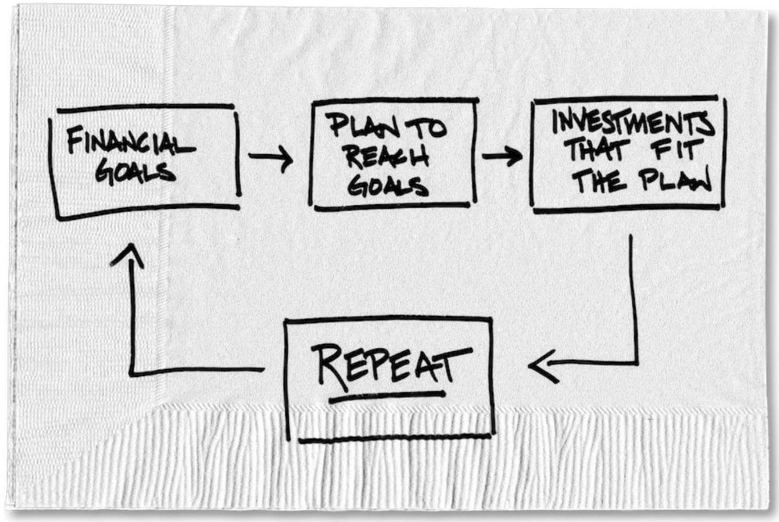
To understand what's likely to be true, we have to rest upon the weighty evidence of history. So maybe it would be worth reminding ourselves of certain other scary times in the recent past.

- 1999: Y2K
- 2002: West Nile virus
- 2003: SARS
- 2005: Bird flu
- 2008: A global financial crisis
- 2009: Swine flu
- 2012: Mayan calendar
- 2014: Ebola
- 2016: Zika

Looking back, you may notice a pattern. The pattern I notice is that each and every time we thought that things might change for good and disrupt investing forever, they didn't. That's what I mean when I say "the weighty evidence of history."

It's true, this time may be different. But probably, it's the same.

4. Stay in the lifeboat



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I understand that this may feel totally unsatisfactory. There's a rustling in the bushes, you're in grizzly bear country, and I'm saying "It's probably just a bird, forget about it." That's not terribly comforting. But running from grizzlies doesn't work, and neither does running from scary markets. What works is having a plan.

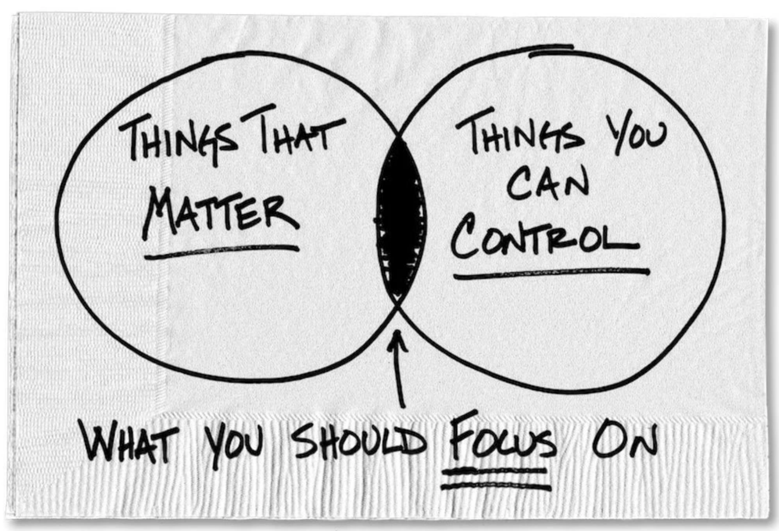
Except, wait. You already do! Remember? And that entire plan is built on your goals. As long as those goals haven't changed, there's no reason to change the plan. Adults re-evaluate their investments when their goals change, not when the markets change.

So right now, as unsatisfying as this answer is, the only adult thing to do is to stick with your current portfolio.

I know it feels like we're in a lifeboat being blown around by the storm. But we've done the drills. We talked about this back in 2016 when the water was calm.

You're ready for this. This is not a drill, but you know what to do.

5. Do something else



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At times like this, I find myself desperately wanting to take action. I can't just sit here, I want to do something. If you feel the same way, give yourself something to do.

Make a list of things that you have total control over that allow you to also gain a tiny sense of control. My list includes making small increases to my automatic investments (even $10 feels good), going on regular walks, getting outside, reading a new book, calling my mom and checking in with friends.

The power of this step can't be overstated. Every time your mind starts to loop on being worried about the markets, don't fight that energy. Redirect it.

Now, one final thought. I know a guide like this can feel unsatisfactory because we desperately want certainty and control. But the reality is that after we think we have thought of everything, we are still left with a pile of unknowns.

In the end, all we can do is control what we can and learn to accept what we can't. Each time I consider all of this, I am reminded of what Winston Churchill said about democracy: "Indeed it has been said that democracy is the worst form of government except for all those other forms that have been tried from time to time."

I'm not saying this guide is perfect. It's just better than anything else we can do right now.