How to Avoid Losing Money When the Market Tanks

Stock market corrections are scary. Watching your money seemingly disappear is *very* stressful. This past year has taken us all on a painful ride. We have had difficult months even as recently as May 2019.

So, the million-dollar question is, *"Why can't we pull money out of the market before the market decline and reinvest the money after it's over?"*

John Bogle, the late founder of Vanguard says it best; *"The idea that a bell rings to signal when investors should get into or out of the market is simply not credible. After nearly 50 years in this business, I do not know of anybody who has done it successfully and consistently."*

Even though the evidence overwhelmingly proves that ***time in the markets*** is more important than ***timing the markets***, people still try at every market downturn.

To make matters even more difficult, it is likely the worst is behind you by the time you sell, thus locking in your losses. This is especially punishing for investors that may want to move to cash when the markets decline. Furthermore, stocks typically generate the biggest gains in the first 12 months of recovery and missing even the first month can lead to substantially lower gains in the long run.

The chart to the right, from the Schwab Center for Financial Research, shows the real cost of moving to cash when the markets are down.

The early bird gets the return

Waiting to jump back into the market even a month after it hits bottom can lead to significantly lower gains over time.

	Cumulative returns following market bottom		
	1 year later	2 years later	3 years later
Stayed fully invested through bear market	46%	70%	83%
Moved investments into cash for 1 month	29%	46%	57%
Moved investments into cash for 3 months	20%	41%	50%
Moved investments into cash for 6 months	13%	32%	42%

Source: Schwab Center for Financial Research and Morningstar. Data from 01/1970 through 12/2017. Market returns are represented by the S&P 500 Total Return Index, and cash returns are represented by the total returns of the Ibbotson U.S. 30-Day Treasury Bill Index. Cumulative returns are calculated using the simple average of returns from each period and scenario. **Past performance is no guarantee of future results.**

May and June 2019 is a great example.

June 4th through June 7th the S&P 500 Index returned about 5%. The entire month of May, the S&P 500 was down about 6.3%. Almost an entire months worth of losses were erased in four days of trading! Clearly missing a few days of strong returns makes a huge difference in your return over the long term. The chart below illustrates the effects of missing the 25 best days in the stock market; **over a 27 year time period your annualized return would be more than cut in half; from 9.81% to 4.53%.**

I'm constantly amazed to see these statistics and numbers repeated over and over again in the markets. This is why investing can be very simple, yet very difficult to execute successfully. It's important to not react emotionally and instead rely on statistics and your comprehensive financial plan to carry you through the tough times.

We are always available for your questions! Don't hesitate to call, 865-240-2292.

Charlie Mattingly, CFP® MBA
Leading Edge Financial Planning
www.leadingedgeplanning.com
6921 Office Park Circle
Knoxville, TN 37909