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Seize the Opportunity?

The past few weeks have been full of political turmoil as Russia invaded Ukraine. First and foremost our thoughts and prayers go out to all those affected. What has since ensued from an investment standpoint has been nothing short of remarkable. We have seen immense swings in the stock market from day to day and even hour to hour. With all the hysteria and media publicity, many investors have become worried about their investment portfolio. With this backdrop, I wanted to take a moment and provide some insights on why it makes sense to stay the course and even buy into a falling market.

We all have been told that volatility is a fundamental part of investing though, after being in the prolonged bull market we have experienced, the notion may have been forgotten. Going back to 1942 the average bear market (i.e. 20%+ market decline from recent peak) has lasted about 11 months with an average cumulative loss of about 32%. The average bull market (i.e. next market high after falling 20%+) has lasted about 4.5 years with an average cumulative total return of about 155%. What does this tell us? Withstanding short-term pain has been rewarded with long-term gain.

A common thought for investors during a falling market is to sell and wait to reinvest until things begin to recover. This sounds great but the statistics show why this strategy is nearly impossible. From 1980-2020 an investor who missed the best 5 market days of the year lost out on about 37% of potential growth as compared to being fully invested. Missing the best 10 days would have cost you around 55% of potential growth. The longer one remained on the sideline the lower their overall return. Timing the market may be near impossible but what about a strategy of time in the market? Since 1937 the S&P 500 index has been positive about 77.5% of the time in any one year period. Over 90% positive during any 5 year period and positive about 97% of the time over a 10 year period.

Depending on an investor's unique situation, timeline, and what they are looking to accomplish, how might they best capitalize on market volatility? The answer often lies in an investing technique called dollar cost averaging. The idea is to invest a similar amount on a similar schedule regardless of market conditions. An example would be investing $500 per month into a stock portfolio on the same day of each month. Over the course of time the cost of ownership would be an average of multiple purchases some high and some low. The goal is to reduce the impact of market volatility while remaining invested given various market cycles. This coupled with an investment strategy that maintains investors shorter term liquidity needs, allows one to take advantage of market volatility without being forced to potentially sell a depreciated asset. Given historically low taxes, interest rates and bank depository rates coupled with high inflation, now might be the perfect time to use history as a guide and put your money to work.

—Rob Swarts, AWMA®

Figures quoted herein were sourced from *"First Trust – Client Resource Kit – Markets in Perspective 12-31-21"*
Full article can be found at https://www.ftportfolios.com/

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