Riverside Retirement Advisors

Here Comes the Hangover - Winter 2022

We circulate articles like this from time, particularly in periods of market stress. January 2022 is off to a pretty bad start, with markets experiencing their worst decline since March of 2020 (the COVID drop). As I write this article, the S&P 500 has formally dipped into “correction” territory, trading 10% below its all-time highs. Small Cap stocks are officially in “Bear Market” territory, down 20% from their highs.

We’ve always stressed the importance of staying the course when the markets go down, but with the S&P 500 posting 3 consecutive years of double-digit positive returns, there hasn’t been an opportunity to test that messaging! Sure, it’s easy to **SAY** the right thing when markets are roaring: “when markets drop, I won’t move to cash, I won’t move to cash, I won’t move to cash”. But…will you actually **DO** the right thing now that the market declines are here?

The rest of this article will explain what’s happening in the markets and some tips for how to navigate them.

Why is it happening?

1. **We’re Hungover.** Governments have pumped so much cash into their respective economies, and citizens have been buying everything they can with their newfound money. All that stimulus has been withdrawn from the system, and investors are fearful the buying will stop. This is because if buying stops, the earnings of the companies who make the things will decline. When earnings expectations decline, stocks (usually) follow suit.
2. **Rising interest rates** will slow down the economy. The Fed kept rates low during COVID to make sure the economy stayed strong. Yes, it worked, but it also contributed to a sharp increase in inflation and an overheating economy. The Fed is now messaging their intent to raise rates, with traders expecting 4 hikes in 2022 (this is driving the steeper decline in tech and small cap stocks, who rely on lower interest rates to fuel higher valuations and growth).

3. **Geopolitical concerns** between Russia and Ukraine. There is a threat of Russian invading Ukraine, and the stakes are high. According to the New York Times, Russia provides Europe over 40% of its natural gas and 25% of its oil!

How to navigate these volatile markets. We’re retirement advisors, so we’d like to discuss these markets in the context of saving for retirement. Whether you are 30 years or 30 months away from retirement, the following points ***should*** help you behave rationally and keep perspective:

1. **Market risk is finally here; pay attention to how it feels.** Market risk is short-term and temporary, but it’s harder to self-manage because the acute pain it inflicts usually forces knee-jerk reactions. People often forget they must expose themselves to market risk to make money. If your portfolio can go up 20% it can also go down 20%. In the long-term, stocks have a 10-year average return of 7-8%, and sitting patiently through that volatility is

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the only way to *earn* that return. (emphasis on 'earn'… keeping a portfolio constant in negative markets is the hardest thing to do).

2. **Allocation, Allocation, Allocation.** Do you have the appropriate mix of stocks and bonds based on your age and desired retirement year? If you're invested in a target date fund of the appropriate vintage, the answer is probably yes. If this market drop has you looking at your retirement accounts for the first time in years, this is a great opportunity to confirm (or change to) an appropriate allocation. Having the right allocation will dictate your success as a retirement investor more than the actual funds you invest in or any attempts to time the market.

3. As it relates to retirement accounts, **time spent in the market is more important than timing the market** (this phrase is used ad nauseam in my world, but it drives the point home). This is probably the worst time to try and time the markets. With volatility we haven't seen in years, don't try to catch the falling knife – you'll do more harm than good. The painful markets of January 2022 are what you are required to sit patiently through in order to attain a goal of average returns, which, in actuality, aren't so average because of the effort required to attain them. *(side note – if you can't ignore the desire to make a few trades to time the market, carve out a very small portion of capital, preferably outside of your 401k account, and go trade it. I'd bet your trading account underperforms your 401k account significantly.)*

The Upside:

- Yields are increasing, which can be a good thing and make bonds more attractive to investors. With yields climbing to more normalized levels, it could make it easier for retirees (and soon-to-be retirees) to obtain more income out of their fixed income investments.

- Your 401k contributions are buying shares of your mutual funds on sale. If you're contributing $50 of every paycheck to the 401k plan, that $50 will buy more shares than it did last paycheck. Dropping a 401k contribution to 0% right now would cause you to miss out on the sale!

- A chance to demonstrate the right behavior. If we go too long without a market correction, we may forget how to appropriately act in these conditions. I've always said I wish the markets corrected every 12-18 months so that investors would be able to 'get their repetitions in' and practice the right behavior. What is the right behavior? Stay the course, invest a little more to take advantage of the market drop, check in on asset allocation, etc.

This is your test. Will you hurriedly log onto your 401k account and move to cash? Will you stop contributing until 'things improve'? Will you try to trade around the volatility we've experienced over the past few days? I hope your answer to all of these is a resounding "NO". And if you're leaning in any of these directions, please give us a call so we can help drive these points home.