WIN BY NOT LOSING

Anyone in the stock market knows it's a roller coaster ride, and there are always twists and turns and ups and downs. But what better place to invest your hard-earned cash and retirement nest egg?

Over the last 20 years, the S&P 500 has been up over 200%. Since 2008 the S&P 500 has been up over 300%! And year-to-date the S&P is up over 23% (as of November 12, 2019).

Obviously, investing in stocks can be very rewarding, but unfortunately, the road to financial success is cluttered with failed financial plans. How many investors can withstand the volatility–the daily whipsawing, uncertainty, and vicissitudes of the stock market?

Bull markets are great, and we have enjoyed one of the longest Bull market runs in history since 2008. The real test for investors, however, occurs during Bear markets. Let's not forget the Wall Street Crash (1929), the Stock Market Crash (1973-74), Black Monday (19 Oct, 1987), the Tech Bust (10 March, 2000), and, of course, the Housing Market Crisis (2007-08). We can even go back in history to the Tulip Mania Bubble (1637) and the South Sea Bubble (1720).

So how does an investor enjoy the great benefits of the stock market without losing – with less worry about what's going to happen next?

The simple answer, of course, is to invest wisely and diversify. Don't get caught up in bubbles and speculation. It's the same old story where the tortoise beats the hare.

Diversification does not prevent you from having losses, but holding one or even two years of income in cash or fixed income may prevent you from having to sell during a market correction or economic recession. It is better to think long term than to be in a position where you have to sell stock at a low point in the market cycle.

A diversified approach may be somewhat methodical but may hold up more favorably in a volatile environment. The benefits of diversification became apparent recently when a balanced index portfolio earned a slightly better return than an all-equity S&P 500 index (1 Oct, 2018 through Sept 2019). In the 4th quarter of 2018, the S&P 500 was down 13½%; whereas a balanced index portfolio was down only about half that much, or 6.9%.

The larger the downturn, the larger the gain needed to break even. One might think if you lost 13½% and then gained 13½% you would return to your original value. But you actually need to gain 16% to break even from a 13½% loss.

2008 provided another example, when US stocks were down around 50%. An all-equity portfolio needed a 100% return then – just to get back to even. A balanced index portfolio needed only about half that much.

That's why successful investing is not just about what happens during Bull markets. Your return during a Bear market can be just as important – if not more so.

A well-diversified investment strategy based on one's financial goals and risk tolerance can smooth out the ride. Yes, the investment will still go up and down with the market, but the ride will not be nearly as scary.

Recognize that it may be difficult to determine your risk tolerance. It's obviously a very personal and subjective assessment. This is why many investors have a professional financial advisor who can be objective and offer a much broader perspective.

There are some who look for excitement when investing. My advice: look for excitement somewhere else–skydiving or extreme skiing might be a start.

Your personal finances are too important for you and your family to play with–even a little. A more conservative approach to investing may help you to win by not losing.

This **Industry Insight** was written by Garrett S. Hoge.

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