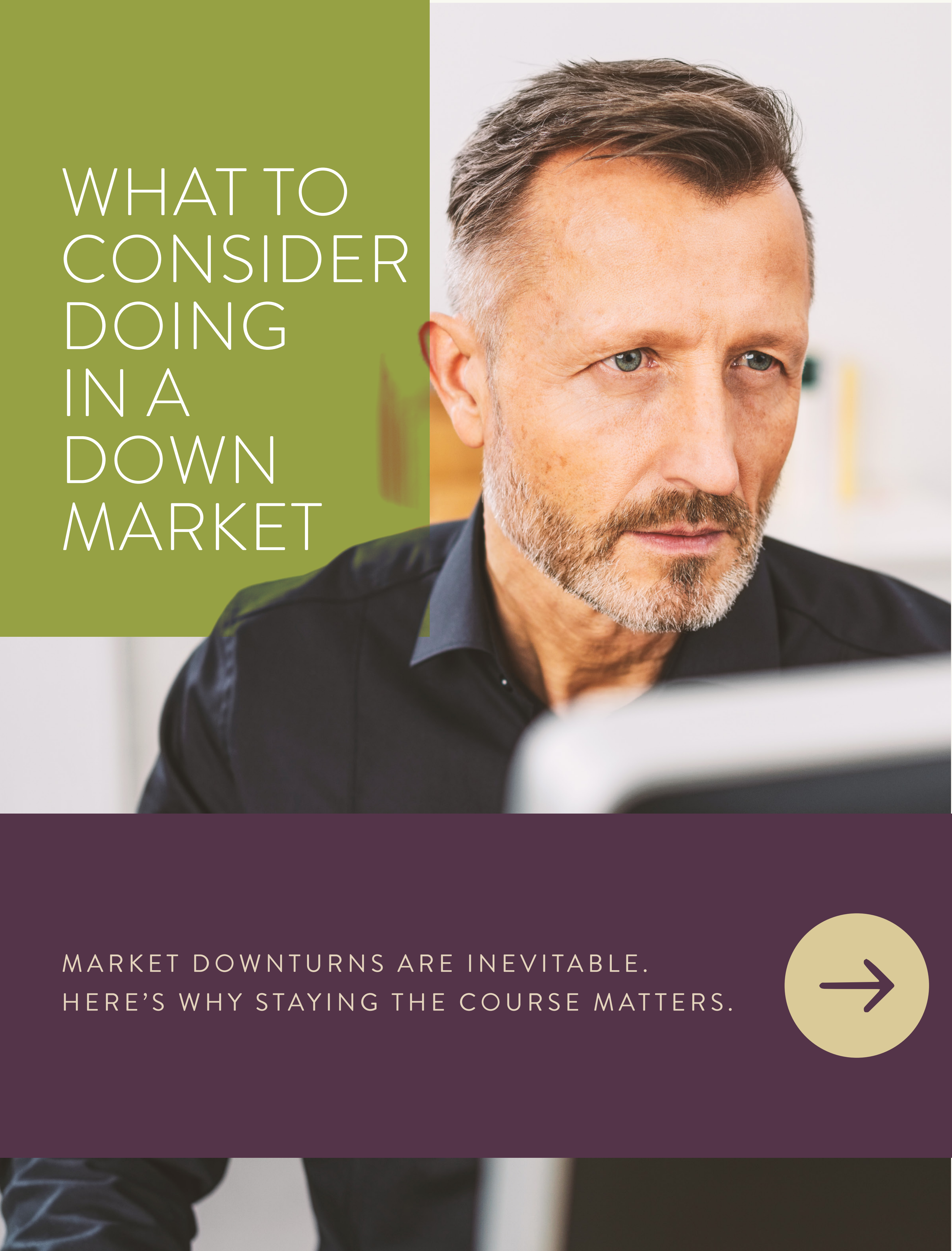
WHAT TO CONSIDER DOING IN A DOWN MARKET



MARKET DOWNTURNS ARE INEVITABLE.
HERE'S WHY STAYING THE COURSE MATTERS.

Investors who actively participated in the stock market following the Great Recession of 2007-09 were fortunate to experience the longest-running bull market in history, the 11 years from March 9, 2009, through March 11, 2020.[1]

The COVID-19 recession ended that bull market.[2] It was quickly followed by a new upward trend before dropping back to bear market territory in May 2022.[3] Unfortunately, bull runs always end at some point. The stock market itself has a natural life cycle that — like life itself — is destined to encounter peaks and valleys. Those scenarios frequently are preceded by events that impact market fundamentals or economic events, such as:

- Changes in interest rates
- New international trade negotiations, treaties and tariffs
- Fluctuating levels in the national debt
- Political controversies that impact national policies
- Global events that threaten economic stability
- Dramatic news headlines that shape investor sentiment

While each of these issues, and certainly all of them combined, generate cause for concern, it's important to remember that we have been in similar circumstances before; we will be there again; and in between, we will experience more periods of economic and investment prosperity.

> A market downturn doesn't bother us. It is an opportunity to increase our ownership of great companies with great management at good prices.
>
> ~ Warren Buffett, chairman and CEO of Berkshire Hathaway

> Far more money has been lost by investors trying to anticipate corrections than lost in the corrections themselves.
>
> ~ Peter Lynch

> History provides a crucial insight regarding market crises: They are inevitable, painful and ultimately surmountable.
>
> ~ Shelby M.C. Davis, founder and former mutual fund manager at Davis Selected Advisers[4]

INVESTMENT MARKETS GO THROUGH CYCLES

Basically, what this all means is that market corrections and even extended bear markets are all normal parts of the investment market life cycle. For reference:[5]

A "market correction" is a decline of 10% or more

A "bear market" is a decline of 20% or more

It is important for investors to remember that what goes up inevitably comes down — at least where investment markets are concerned. Fluctuations are normal, and a decline in share prices offers the opportunity for investors to engage in a time-tested method for pursuing more gains from well-established growth companies: Buy low and sell high.

If companies — even steady, consistent growth performers — do not have the opportunity to reset prices, then investors would always have to buy at top-of-market prices to expand their position. However, when share prices drop, this is a window of opportunity to increase holdings in a reliable performer.

Another thing worth noting is that market corrections and bear markets are historically common, regular and generally short term. To illustrate this point, consider the table on the next page, which depicts corrections and bear markets from 1928 to 2023 — noting the following points:

- Numbers in black denote a market correction.
- Numbers in red denote a bear market.
- Throughout this period, the S&P 500 experienced a correction or bear market every one to three years.
- In those 95 years, there were only five time frames (highlighted) in which the index did not experience a correction or bear market for more than three years.

S&P 500 CORRECTIONS & BEAR MARKETS SINCE 1928[6]

Peak Date	Trough Date	Peak Price	Trough Price	Percent Loss	Number of Days
5/14/1928	6/12/1928	20.44	18.34	-10.3	29
9/7/1929	11/13/1929	31.92	17.66	-44.7	67
4/10/1930	6/1/1932	25.92	4.40	-83.0	783
9/7/1932	2/27/1933	9.31	5.53	-40.6	173
7/18/1933	10/21/1933	12.20	8.57	-29.8	95
2/6/1934	3/14/1935	11.82	8.06	-31.8	401
4/6/1936	4/29/1936	15.51	13.53	-12.8	23
3/6/1937	3/31/1938	18.68	8.50	-54.5	390
11/9/1938	4/8/1939	13.79	10.18	-26.2	150
10/25/1939	6/10/1940	13.21	8.99	-31.9	229
11/9/1940	4/28/1942	11.40	7.47	-34.5	535
7/14/1943	11/29/1943	12.64	10.99	-13.1	138
2/5/1946	2/26/1946	18.70	16.81	-10.1	21
5/29/1946	10/9/1946	19.25	14.12	-26.6	133
2/11/1947	5/19/1947	16.14	13.77	-14.7	97
7/24/1947	2/14/1948	16.12	13.84	-14.1	205
6/15/1948	6/13/1949	17.06	13.55	-20.6	363
6/12/1950	7/17/1950	19.40	16.68	-14.0	35
1/5/1953	9/14/1953	26.66	22.71	-14.8	252
9/23/1955	10/11/1955	45.63	40.80	-10.6	18
8/2/1956	2/12/1957	49.74	42.39	-14.8	194
7/15/1957	10/22/1957	49.13	38.98	-20.7	99
8/3/1959	9/28/1960	60.71	52.48	-13.6	422
12/12/1961	6/26/1962	72.64	52.32	-28.0	196
8/22/1962	10/23/1962	59.78	53.49	-10.5	62
2/9/1966	10/7/1966	94.06	73.20	-22.2	240
9/25/1967	3/5/1968	97.59	87.72	-10.1	162
11/29/1968	5/26/1970	108.37	69.29	-36.1	543
4/28/1971	11/23/1971	104.77	90.16	-13.9	209
1/11/1973	10/3/1974	120.24	62.28	-48.2	630
11/7/1974	12/6/1974	75.21	65.01	-13.6	29
7/15/1975	9/16/1975	95.61	82.09	-14.1	63
9/21/1976	3/6/1978	107.83	86.90	-19.4	531
9/12/1978	11/14/1978	106.99	92.49	-13.6	63
10/5/1979	11/7/1979	111.27	99.87	-10.2	33
2/13/1980	3/27/1980	118.44	98.22	-17.1	43
11/28/1980	8/12/1982	140.52	102.42	-27.1	622
10/10/1983	7/24/1984	172.65	147.82	-14.4	288
8/25/1987	12/4/1987	336.77	223.92	-33.5	101
1/2/1990	1/30/1990	359.69	322.98	-10.2	28
7/16/1990	10/11/1990	368.95	295.46	-19.9	87
10/7/1997	10/27/1997	983.12	876.99	-10.8	20
7/17/1998	8/31/1998	1186.75	957.28	-19.3	45
7/16/1999	10/15/1999	1418.78	1247.41	-12.1	91
3/24/2000	10/9/2002	1527.46	776.76	-49.1	929
11/27/2002	3/11/2003	938.87	800.73	-14.7	104
10/9/2007	3/9/2009	1565.15	676.53	-56.8	517
4/23/2010	7/2/2010	1217.28	1022.58	-16.0	70
4/29/2011	10/3/2011	1363.61	1099.23	-19.4	157
5/21/2015	8/25/2015	2130.82	1867.61	-12.4	96
11/3/2015	2/11/2016	2109.79	1829.08	-13.3	100
1/26/2018	2/8/2018	2872.87	2581.00	-10.2	13
9/20/2018	12/24/2018	2930.75	2351.10	-19.8	95
2/19/2020	3/23/2020	3386.15	2237.40	-33.9	33
1/3/2022	10/12/2022	4796.56	3577.03	-25.4	282
7/31/2023	10/27/2023	4588.96	4117.37	-10.3	88

Despite all of those periods of market corrections, bear markets and numbers of days with negative returns, the S&P 500 posted an average annualized return of approximately 9.90% from 1928 through Dec. 31, 2023.[7]

DON'T DO ANYTHING DRASTIC

If you're not interested in buying more shares during a market decline, then the key may be simply to hold fast. Focus on other elements of your financial plan that you can control, such as paying down debt or purchasing a life insurance policy to help provide long-term financial preservation for your loved ones.

It is important to remember that investing is a long-term endeavor. The goal should be less about outperforming indexes and more about giving an investment uninterrupted time in the market — time to experience periods of rising prices and time to recover from periods of declining prices. After all, even short periods out of the market can have a substantial impact on investment returns.

FOLLOW YOUR PLAN: THIS IS WHY YOU HAVE IT

One of the most important ways to help investors weather a down market is to have a financial plan already in place. There are many reasons for this. Establishing specific financial goals, a timeline for reaching those goals, an asset allocation strategy and a carefully constructed portfolio are all significant components of a financial plan.

Some reasons people avoid consulting with a professional financial advisor to develop a plan are they don't think they have enough assets to warrant a formal plan, they may believe they have a good grasp of their finances and/or they think it will be expensive or way too complicated.

However, setting aside all of those concerns, if you could gain greater confidence in your investment strategy during a down market, that alone may be worth it to have a financial plan.

If you don't have a financial plan, or even if you do but you're feeling distressed over the current market environment, consult with a financial advisor. These professionals have day-to-day experience working in investment markets and can share insights that may help you get through periods of uncertainty.

GENERAL GUIDELINES FOR DOWN MARKET MOVES

The garden-variety wisdom is generally to hunker down and maintain a long-term perspective when it comes to weathering a correction or bear market. However, with that said, there are some proactive things investors can do to help reinforce their financial position and mindset.

The following are some common recommendations.

Dollar-cost averaging

Investing the same amount of money on a regular basis can help smooth out the impact of fluctuating prices. With this tactic, called dollar-cost averaging, more shares are purchased at lower prices, and fewer shares are purchased at higher prices. Over time, the investor pays less, on average, per share. However, be aware that regular investing doesn't ensure a profit or protect against loss, and you need to consider whether you're willing to continue investing when share prices are falling.

Diversify more

By spreading your money across a wider range of asset classes and sectors, you may be able to help reduce the impact of a market decline.

Consider converting to a Roth IRA

One of the best times to convert from a taxable IRA to a tax-free Roth IRA may be when there is a major stock market correction. You'll have to pay taxes in the year you convert, but this cost will be less during periods when the value of the stocks in your portfolio are depressed.

Consider your risk tolerance in relation to your goals

When it comes to investing, higher-risk holdings generally offer the potential for higher returns. The younger the investor, the more time he or she has to recoup any losses incurred through higher-risk investments. As investors grow older, they tend to be more conservative because they have less time to recover from market losses. However, much depends on how close you are to meeting your financial goals. Some individuals who are not well prepared for retirement may be willing to trade higher risk for the opportunity to accumulate more assets over a shorter period of time.

This is a scenario in which it is important to get advice from an experienced financial advisor. He or she can determine an appropriate mix of investments to help work toward an investor's objectives without taking on undue risk.

TAKEAWAY: SHOULD A DOWN MARKET AFFECT YOU?

Once you've considered all the variables, you may reach the conclusion shared by many of the most knowledgeable investors and market commentators — that down markets are not necessarily negative events. While they can be unnerving, it's not always prudent to make changes to your portfolio.

A financial advisor can help walk you through the potential "what if" scenarios of a bear market or correction to help determine an appropriate investment strategy for your circumstances. For example, the closer you get to (or if you're in) retirement, the more impact timing of negative returns can have on your long-term financial goals. Factors such as future inflation and unknowable tax legislation also can impact your portfolio.

Financial advisors have experience working with these variables and helping clients both prepare for and weather down market cycles. If you have concerns or questions about the current market environment, contact your advisor.

[1] Associated Press. AP News. June 8, 2023. "The S&P 500 is in a bull market. Here's what that means and how long the bull might run." https://apnews.com/article/bull-stock-market-wall-street-cde5d042da6aa887e7d5ba64b62815ff. Accessed May 30, 2024.

[2] The Investopedia Team. Investopedia. Sept. 8, 2023. "US Recessions Throughout History: Causes and Effects." Accessed May 30, 2024.

[3] Emily McCormick. Yahoo Finance. May 23, 2022. "Stock market news live updates: Stocks rise to recover from bear market brink." https://finance.yahoo.com/news/stock-market-news-live-updates-may-23-2022-112701613.html. Accessed May 30, 2024.

[4] Davis ETFs. "Wisdom of Great Investors – Quotes." https://davisetfs.com/investor_education/quotes. Accessed May 20, 2022.

[5,6] Yardeni Research, Inc. Jan. 21, 2024. "Stock Market Historical Tables: Bull & Bear Markets". https://yardeni.com/wp-content/uploads/BullBearTables.pdf. Accessed May 30, 2024.

[7] J.B. Maverick. Investopedia. Jan. 3, 2024. "What is the average annual return for the S&P 500?" https://www.investopedia.com/ask/answers/042415/what-average-annual-return-sp-500.asp. Accessed May 30, 2024.

Sound Planning Group
11411 NE 124th St., Ste. 255
Kirkland, WA 98034

425-821-9442
admin@myspg.com
myspg.com

6/24 - 3601480C