Morgan Stanley

Big Drops in the Markets…

How Might We Best React?

Case Study

The Pathak Group at Morgan Stanley

When financial markets experience sizeable drops or sustained periods of decline, people often question themselves and their financial decisions. Many also experience feelings of fear, uncertainty, and doubt.

Unfortunately, these common, though understandable, emotional reactions can quickly lead to panic, which the Merriam Webster dictionary defines as "a sudden unreasoning terror." Of even greater concern, however, is that terror too often results in unthinking behavior.

On the positive side, there are things an investor can do to more effectively manage these normal reactions to larger declines in the markets and to reduce the risk of making emotionally-driven economic decisions.

An Ounce of Prevention…

As the saying goes, "an ounce of prevention is worth a pound of cure." In other words, it is often easier to stop something from happening in the first place than to repair the damage after-the-fact.

Putting this into context, we have been experiencing an overall decline in the markets for quite some time; and we know this can bring about fear, uncertainty, and doubt, which can ultimately result in panic.

The goal is to prevent this panic.

A first step might be to structure investments in a way that anticipates periodic large drops. If an investor is likely to experience a short-term need for cash, possibly due to an approaching retirement, then a cash cushion should be a part of the plan, which can help them avoid drawing from their portfolio during bad times.

Additional things that can help an investor avoid or prevent the panic that is so often associated with volatile markets include:

- Seek balanced input to negative media reports, which can often heighten our fears and concerns
- Invest for the long term. Envision the fiscal environment we might be experiencing a year or two from now and avoid looking at accounts every day

Learn from the Past & Plan Ahead Accordingly

As you may know, markets historically correct. We can look back to some of the most challenging times such as the 2008-2009 debacle or the dot-com bust of 2001 - 2002 and make note of how the markets recovered.

People often say "time in the market commonly beats timing the market" because many of the best days occur during or immediately following downturns. Naturally, during these negative periods, no one knows how soon or when the corrections might take place.

This is why maintaining a steady commitment to a long-term investment plan has saved many from making costly mistakes such as over-reacting, selling near the bottom, and then not getting back into the market in time to recover.

When big market drops occur, patience and objectivity along with qualified input from a trusted advisor can help investors avoid negative reactions and plan ahead with greater confidence.

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