Reflections of Summer

What I learned at the pool about investing

by **Paul Neveu**, President,
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I've spent my entire career working on qualified retirement plans. And like you, I'm also a participant in these plans. This means I'm subject to the same emotions as you are in volatile markets: the ups. The downs. The rotation of fear and opportunity as sentiment shifts like the wind. I'm counting on my 401(k) as the anchor of my future retirement. So when my account drops more in one month than three years of progress combined, it's unnerving, to say the least. I know that many investors have been alarmed by what they've seen this year in the markets. So I thought I'd write this article to pass on personal reflections from other times when the markets got downright ugly.

Like most who work in the industry, whenever the stock market goes haywire, I get calls from family and friends asking me what they should do with their investments. I was talking with a friend in March when he said something I've heard before: "*This market is freaking me out. I'm going to get out, sit on the sidelines for a while. Then when it all blows over, I'll get back in.*" As he said this, a realization hit me like light a bolt of lightning. Let me explain.

It Starts with a Sunny Day

When I was a kid, my family lived in Cincinnati, Ohio. Summers were hot, sticky and humid; they seemed to go on forever, with kids playing outside all day long--Kick the Can and Ghost in the Graveyard being my personal favorites. My siblings and I spent most of our summers at the Forest Park Swim Club – swimming and diving, hitting the concession stand for Fun Dip™, playing cards and shuffleboard with friends, and everything else one did in a pre-technology era. It was the heyday of feathered hair, cut-off jean shorts, Nike Cortez sneakers, and American muscle cars – you know, when Rick Springfield was calling Jesse's girl, but she was having none of it.

Once or twice a week at the pool, FM radios would interrupt the joy of a summer day with a sudden screech from the National Weather Service. An ominous voice would come on and provide details on the weather headed our way. Over the next hour, dark clouds would roll in, accompanied by distant rumbles of thunder. At that point, lifeguards would blow their whistles: "Everyone out of the pool!" We'd all obediently bail and head for shelter.

You can probably see parallels between a thunderstorm and bad news in the investment markets. However, something happens in investing that's very different than the swim club story.

The "Fighting Fish" were a force to be reckoned with in 1980.

The next twenty minutes were colorful: dumping rain, lightning, crashing thunder, flying lawn chairs. Pool goers would take cover in the main building or hunker down in their cars. We knew it would blow over, but things got scary for a while. Sometimes you had that sick feeling in your stomach like heavy airplane turbulence. If the storm was really bad and tornadoes were possible, local air-raid sirens would blare – an ominous sound which called for a very different response. Finally, after thirty or forty minutes of chaos, skies would brighten. The rain would end, and hot, sticky weather would resume. Lifeguards would blow their whistles and everyone would jump back into the pool at once. Time to enjoy the rest of the day.

You can probably see parallels between a thunderstorm and bad news in the investment markets. However, something often happens in investing that tells a different story. There are two sides to it.

1 In investing, when bad news is coming, people start bailing from the pool long before they hear thunder. Maybe they have an inside connection at the weather service. Maybe they see something in interest rates, trade policy, or earnings reports that concerns them. The hint of upcoming bad news is often enough for the markets to take a dive. It's important to remember that stock markets are a leading indicator of economic conditions, so they usually react several months in advance of actual news.

When a storm gets really bad, as we've seen with the Coronavirus, people who are normally hard to rattle become despondent. That's when running for the exits occurs – selling leads to more selling which leads to crazy dumping of stocks. At times like this, people might say, "Just get me out. I don't care what happens next, I just want out of this hellish experience." It is the feeling of pure fear that can run rampant for weeks and make people want to stay out for a long time.

One thing I've observed in selling stretches: They often set up 'double nightmare' scenarios for investors who sell, like a sucker pitch in a game of softball. Perhaps you endured several weeks of red ink, and finally decided on a Friday to get out – moving your 401(k) or 403(b) to the stable value fund. You stumbled into the weekend not wanting to even look at the news. Then, somehow, good news manages to emerge over the weekend. By Monday morning, the Dow futures are up 800 points. When the appearance of the sun suddenly becomes bad news to you, you've been twisted around by the market. If you had put on a blindfold and done nothing, would you have been better off? This kind of second-guessing can make investors crazy.

2 The second phenomenon is probably even more perplexing. Unlike the swim club, in investing, courageous investors jump back into the pool in the middle of a hail storm, in an image reminiscent of Normandy. Thunder and lightning are everywhere, and for some reason they're going all in – beach balls, Speedos™ and all. They're confident that a rebound is coming (even in the darkest part of the storm), but if they wait until the rain ends, they know they'll miss most of it. This scenario is absolutely maddening, because it conflicts with everything we learned about danger and risk as kids. Having the temerity to go into the pool in the middle of the storm? Who would do such a thing? But this is where a lot of the long-term gains in the stock market come from -- if you have the bravery to just believe. Cover your eyes and go in.

Markets bubble up, but rip down.

Having observed the market over long periods of time, a general observation I would make is this: Markets bubble up, but rip down.

During good times, as we saw for the five years leading up to February of 2020, markets bubble up slowly – some flat days, a lot of good days, and a few bad ones – but a slowly rising trend. Eventually you find yourself saying, "Wow, this is the best 401(k) balance I've ever had, by a long shot." The paradox is, most people have absolutely no sense of urgency to react when things are great. Then, something unexpected happens and the market rips down fifteen percent in three days. The cold reality is that to most of us, fear is a more powerful motivator than greed. And, when people get spooked en masse, it moves the market very quickly.

It's important to remember that the market is more volatile today because

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institutional firms, "program traders," and a large percentage of the marketplace use exchange traded funds (ETFs) instead of individual stocks and bonds. If someone buys or sells $100,000 in an ETF, like SPY, MDY or QQQ, they can be in or out of the market in the blink of an eye, across hundreds of companies. This furthers the "everyone in / everyone out" dynamic which makes the market more volatile. Remembering that these forces are at work can help you panic less when you see a 5% market move on a given day, as disconcerting as it may seem.

Institutional investors are not going away. There are hundreds of firms in America and trillions of dollars in play, representing every facet of American life (mutual funds, collective funds, separate accounts, pension plans, public employee plans, non-profits, hospital, foundations, endowments, you name it). Unless they all decide to become lifeguards at once, these firms will need to find companies to invest in and plow money back into stocks. Selling never lasts forever. You can count on that like the rising of the sun or the changing of the tides.

At times of uncertainty, time and cash are your most precious commodities. If you can wait six, twelve, or even eighteen months without reacting, you'll likely be in a better position to make decisions.

Also remember that the American spirit, even in the darkest days of the Coronavirus, is enterprising, creative and relentless. People are up all night studying what's happening with the virus. They are trying new things in labs and hospitals to see what works; they will find new medicines, techniques, therapies and strategies. There will be massive pressure to make them available once they are known to work. I'm confident we will turn the tide on this awful mess. Hiring will resume. People will get back to work, go to sporting events, and take vacations. We'll learn lessons from this crisis and get back to some level of normalcy.

Conclusion

I hope these thoughts are helpful as the headlines swirl around you.

One thing I can't stress enough is that the help of investment professionals – including Investment Advisors, Trust Companies, Certified Financial Planners – is essential to avoid knee-jerk reactions that come from volatile markets. Your investment strategy needs to consider your time horizon as well as your ability to withstand investment risk. Diversification will help by providing some smoothing effect. I encourage you to visit the BPAS Participant Education Center (pec.bpas.com) for a wide range of tools and educational content to help you ride out the storm. Visit often, especially during this time.

Like you, I don't know what the next few months or years hold; we're all in this mystery together. Like the storm clouds that interrupted our days at the pool, I'm confident that, in time, this too shall pass.

I wish you all the best in your retirement plan journey.

Remember: Nothing in this article should be construed as investment advice. Neither I nor my firm has a crystal ball on what is going to happen in investment markets. And, participants need to make their own decisions about what is best for their situation, time horizon and risk tolerance (working with investment professionals along the way).

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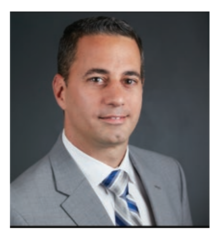

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