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Five Answers for the Scared Voices in Your Head

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COVID-19 has caused worry around both our health and the health of the economy, and while the specifics of this crisis may be different than some we've faced in the past, the principles of sound money management remain the same. Since the pandemic began, exasperated by the economic downturn, and subsequently, the presidential election, most of the calls I have received have focused on several consistent themes: market timing, fear, and in some cases, making drastic changes to a portfolio.

In every case, the person with whom I was speaking knew they were supposed to maintain a long-term focus and ignore the crisis du jour, but the pervasive drumbeat of media pessimism and the very real fears we all face left them with panicked thoughts, long-term focus notwithstanding. Trying to counteract this fear, I've addressed some of these common fearful thoughts below, with an evidence-based refutation following.

One of my favorite poems is Rudyard Kipling's "If," which begins, "If you can keep your head when all about you are losing theirs..." and I hope these five principles will help re-center on your financial plan and do just that.

"It's been a good run, but it's time to get out."

From 1926 to 1997, the worst market outcome at any one year was pretty scary, -43.3%. Consider how time changes the equation though—the worst return of any 25-year period was 5.9% annualized. Take it from the Rolling Stones: "Time is on my side/ Yes, it is."

"I can't just stand here."

In his book, What Investors Really Want, behavioral economist Meir Statman cites research from Sweden showing the heaviest traders lose 4% of their account value each year. Across 19 major stock exchanges, investors who made frequent changes trailed buy-and-hold investors by 1.5% a year. Your New Year's resolution may be to be more active in 2021, but that shouldn't apply to the market.

"If I time this just right..."

As Ben Carlson relates in A Wealth of Common Sense, "A study performed by the Federal Reserve... looked at mutual fund inflows and outflows over nearly 30 years from 1984 to 2012. Predictably, they found most investors poured money into the markets after large gains and pulled money out after sustaining losses—a buy high, sell low debacle of a strategy." Everyone knows to buy low and sell high, but very few put it into practice.

"I don't want to bother my advisor."

A recent study set out to quantify the value added (in basis points) of many of the common activities performed by an advisor, and the results may surprise you. They found the greatest value provided by an advisor was behavioral coaching, which added 150 bps per year, far greater than any other activity. It's times like this why investors have advisors, so don't be afraid to call them for advice and support.

"This is the end of the world!"

Since 1928, the US economy has been in recession about 20% of the time and has still managed to compound wealth at a dramatic clip. What's more, we have never gone more than 10 years at any time without at least one recession. The sooner you can reconcile yourself to the inevitability of volatility, the faster you will be able to take advantage of all the good markets do.

Orion Portfolio Solutions understands investing for the long term can be daunting, especially during a time like this, but we are focused on providing solutions that help investors achieve their unique financial goals.

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