Hand Sanitizer, Toilet Paper, and Your Emotional Well-Being

We understand how you might be feeling right now. For many of us, there is an oscillating flow of emotions, including highs and lows, as we try to acclimatize to the evolving daily routine and the vicissitudes of the economy and stock market that go with it. Just in case these matters weigh heavily on your mind, we'd like to share some additional perspectives with you.

> *"You make most of your money in a bear market; you just don't realize it at the time."*
>
> – Shelby Davis

Many of you will have friends, co-workers, and family members asking you what to do now that the market has fallen. We encourage you to express empathy with their circumstances and let them know it is completely okay to ***feel*** the fear of further loss, as there are few who walk among us who are immune to that emotion. However, the one thing they need to get right every single time is that they must simply refuse to ***act*** on that fear. Then, in the moments when their temporary anxiety wanes, calmly and confidently tell them not to be afraid… everything will be okay. Tell them the market will recover along with the collective sentiment of their family, their community, and the nation…***it always does***.

One of the first victims of a bear market for stocks is that some investors suddenly lose the ability to tell the difference between temporary volatility and permanent loss. Here's a sample of exactly what we mean. Below, Investor #1 clearly understands the difference between volatility and loss, but regrettably Investor #2 does not.

Investor #1: "I'm experiencing a quite normal, and certainly temporary, 33% or so decline in the stock portion of my portfolio in a plain-vanilla, garden-variety, happens-about-once-every-five-years type of seemingly cataclysmic global event, but that's just normal market volatility, and it will pass. It seems like a good opportunity to purchase stocks whose prices have fallen."

Investor #2: "Oh my God, I've lost 33% of my money in stocks! I'd better get out before I lose a lot more!"

Famed investor Peter Bernstein explained the perspective of Investor #2 well in a single sentence: "Fear has a greater grasp on human action than does the impressive weight of historical evidence."

And as famed value investor Shelby Davis once observed: "You make most of your money in a bear market; you just don't realize it at the time."

To be clear, it is NOT okay to hoard hand sanitizer or toilet paper with the intention of selling it later at higher prices. However, it is perfectly okay to do exactly that with the stocks in your portfolio – in fact, not only it is a brilliant strategy, it is also morally and socially acceptable.

We know it can be hard to suppress your inner "Investor #2." When you have courtside seats to watching a third of your stock portfolio attrite day by day – with the media describing each new COVID-19 case as an unprecedented crisis in the economic life of our country – you wouldn't be human if you didn't feel the powerful impulse to sell and bury the cash proceeds in the backyard.

You wouldn't be human if you didn't feel like waiting until you felt better to reinvest in stocks.

There's just one problem with that – it's a terrible investment strategy. The good news is that you already have a battle-tested strategy, one that is rooted in evidence, and for which your portfolio was designed in advance of this current crisis. Specifically, a continually rebalanced portfolio of global equities and high-quality bonds has an unrivaled long-term record of preserving and enhancing purchasing power during volatile markets. It's far superior to a strategy, employed by many ill-advised folks, of chasing trends and randomly panicking in and out of the markets (which, of course, really is not a strategy at all).

"Fear has a greater grasp on human action than does the impressive weight of historical evidence."

– Peter Bernstein

We are completely at peace with rebalancing and investing amid uncertainty, as we know these decisions will shine brightly several years out. Investors who get it right during bear markets are prepared for the possibility that every decision they make today might look wrong tomorrow, as we have no idea if stocks will rise or fall tomorrow, next week, or next month, or how long this market decline will continue. If we want to be successful, our investment brains must "zoom out" from this week, next week, or next quarter — where our vision is impaired — to years ahead, where paradoxically we have significantly more clarity.

We feel heartbroken for investors who are without great advice during these times. It is a shame that, for these folks, every significant market decline can spark an epic wave of panicked selling of stocks. Investors who have investment horizons that span decades, who should welcome an occasional bear market as an opportunity to purchase global equities on the cheap, instead sell their stock holdings at panic prices – prices that are so attractively inexpensive, we may never see them again in our lifetimes.

We all want to know when this market decline might end. Some market declines are brief, and others less so. No one knows for sure when the bottom may have been reached. On the one hand, China reported on March 18 that there were no new local infections of COVID-19. That helps us understand it is possible that three months or so could be a guidepost for how long the first wave of infections could persist here in the U.S. However, on the very same day, the headlines in the U.S. announced a government plan for an 18-month pandemic. What should we as investors believe? What should we as investors do? Well, we know exactly what to do. Importantly, we don't have to rewrite the playbook, simply because the cause of this downturn is unique. Here's a high-level outline of our strategy during volatile markets:

1. Opportunistically rebalance your portfolio to your target asset allocation, per your strategic investment policy to preserve the risk-return dimensions in your portfolio.
2. Proactively seek out the opportunity to harvest losses for income tax purposes while simultaneously avoiding portfolio distortion.
3. Communicate with you regularly to make sure we are all adhering to sound principles of behavioral finance.
4. Explore opportunities to take advantage of the low interest rate environment by selectively refinancing existing real estate debt and other credit facilities as appropriate.

It is easy to look at the current market decline as a wretched curse that adds to the anxiety of COVID-19, but if we look a few years out, we can expect to see that this volatility provided the opportunity to add to existing portfolio positions at prices that will seem remarkably inexpensive with the benefit of hindsight.

Author Nick Murray frames it well in his book, *Simple Wealth, Inevitable Wealth* when he reminds us that how we are feeling about our portfolios at any given moment is a result of the interminable battle between our **fear of the future** and our **faith in the future**. If your faith in the future begins to waver, please reach out to us. We are here to replenish your faith in the long-term upward trajectory of the markets and to make sure that panic is never your investment strategy. You already know that Rockwood is a "hand-sanitizer-bottle-half-full" type of firm, and we know with unrelenting conviction that we'll all get through this temporary uncertainty together!

Rockwood Wealth Management
www.RockwoodWealth.com
(267) 983-6400

John R. Augenblick, MBA, CFP®, President
Brian D. Booth, CFP®, Partner
Kenny B. Bauer, EA, CFP®
Courtney L. Durham
Maureen C. Gribb
Scott H. Kelley, MBA
Megan J. Lottier, CPA, MST
Alaina D. Masler
Craig E. Morgenstern, CFA, CFP®
Renee A. Schuster, CFP®
Patti A. Vidakovic
Mark T. Kelly, CPA, CAIA, MST, Partner
Sam W. Feldbaum, MST, CFP®, Partner
Michael J. Byrne, CFP®
Najeedah I. Ghias
John T. Hagan
Janelle E. Lear
Paige E. Marlow
Catherine J. Morgan
Travis Roe-Raymond, CFA, CFP®
Rob T. Stephenson, AIF®