On The Mark

Fear of Markets?

Key Takeaways

- Fear of Missing Out and Fear of Losing it All can potentially limit long-term returns.
- Market highs tend to cluster and lead to new highs and shouldn't be feared as the start of the next downfall. Market corrections are part of a healthy market and provide an opportunity to invest at lower prices.
- Diversification across a mix of different investment strategies is a way of dealing with the fear of knowing that something is working in today's market while also providing a smoother ride towards long-term goals.

Fear, that unpleasant emotion caused by a belief that something is going to happen to cause pain, is ever present in the investment world. The key words here are 'emotion' and 'belief,' and they lead to ill-timed investment decisions.

As markets hit new highs, there's fear of missing out (FOMO) on further upside potential. But on the flip side, there is also fear of losing it all (FOLIA) if markets are at a peak and could see a potential correction.

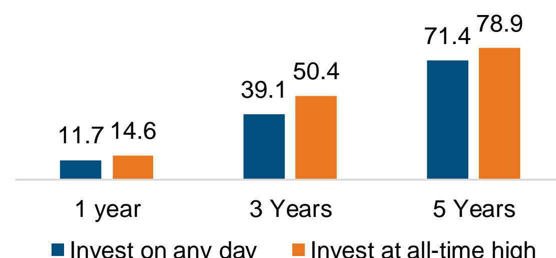
Market Highs

While many may believe that new market highs may mark the start of a new downturn, if we look back in history, the all-time market highs tend to cluster, and new highs are followed by more new highs. The momentum behind the new all-time highs tends to be self-feeding as that fear of missing out drives investors into the market. This allows the market to continue to rally and new highs to persist for longer periods than may be intuitive.

Going back to 1950, almost 7% of all trading days saw a new all-time high. And that percentage increases during market rallies. Looking at one of the strongest bull markets – the 1990s – over 12% of trading days saw new all-time highs. Post Grand Financial Crisis, 2013-2019 all-time highs were seen on 14% of trading days, and so far in this decade – the 2020s – 11% of trading days saw a new high despite going through 2 bear markets.

In fact, investing at all-time highs is not to be feared. As seen in the chart below, investing at an all-time high provided a higher relative return over multiple time periods than investing on any day.

Average cumulative S&P 500 total returns
January 1988 – August 2020



Source: Ben Carlson, "All-Time Highs in the Stock Market are Usually Followed by More All-Time Highs."

Market Lows

We all fear the bear market and losing the nest egg that has grown over the years – we spend time and potential return fearing for the big market crash (fall of 50% or more) – an event that is actually fairly rare. There have only been five market crashes in the past 100 years.

Bear markets (loss of 20% or more) or corrections (loss of 10% or more) are more frequent, though. In fact, since 1928, there have been 55 falls of 10% or more, of which 33 are market correction and 22 are a bear market. On average, we see a bear market once every four years, with a fall of 36.6% over 381 days. While on average, we see a correction once every 18 months, with a fall of 13.8% over 116 days.

Market corrections are more common and actually a healthy part of a normally functioning market that responds and reacts to the changing economic environment. It's the market's way to take a pause, and it can be a time to invest, taking advantage of some lower prices.

Some may ask why a correction of -13.8% is considered healthy. Sometimes, the markets get ahead of themselves, and can lead to market exuberance and a potential unhealthy market crash. Think about corrections like taking your foot off the gas pedal – when you get too close to the car in front, you need to ease off to limit the potential of a crash.

Removing the Fear

Markets are living organisms that have a life of their own. They are hard to predict and hard to time, so what is an investor to do to remove the fear of missing out or the fear of losing it all?

Have a plan and stick to it! Prepare portfolios for different market environments before they occur by diversifying them across different investment strategies. Understand the role of investments in your portfolio and know that they are not all going to perform in the same way all the time. But over time, they should provide you with a smoother ride and take some of those emotions out of investment decisions, knowing something in the portfolio is working in the current market environment.

AssetMark, Inc.

1655 Grant Street
10th Floor
Concord, CA 94520-2445
800-664-5345

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