

5 Beliefs to Hold When The Market is Tanking

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Navigating volatile markets is always challenging.

Correction: navigating bearish markets is challenging; navigating bullish markets is usually pretty enjoyable. We've had it great in 2019; it's been the best start to a calendar year since 1991. It's such a shame it had to end. But that's all part of the game. Here's what I keep in mind when the markets get tough.

1. I signed up for this

Volatility in the stock market is a fact of life. Accept it. Markets don't go up in a straight line. Some days you'll win; some days you'll lose. If you get nervous, or depressed, or lose your faith whenever the market tide turns against you, you'll never invest for more than a few months at a time.

The only true way to generate serious, sustainable wealth in the stock market (and it is achievable) is to make informed, meaningful, prudent and long-term stock market investments. Getting shaken every time there is a pullback is a certain way to compromise the 'long-term' key to investment success.

2. This is an opportunity

Interestingly, one of the more recurrent themes I've been hearing of late has been from the so-called 'value investors' who have been bemoaning the relentless strength of the ASX growth stocks. Not unexpectedly, this cohort of companies has fared the worst in recent days. Is this an opportunity to get set in, or indeed increase, a successful position?

The silver lining of any market correction is that value increases across the board. And who doesn't want to buy something cheaper today than they could have yesterday?

3. It is impossible to trade perfectly

One emotional sharemarket trap is the ready availability of distinct pricing history. Pricing transparency is far greater for stocks than it is for asset classes such as real estate, fixed interest or alternative assets. Graphs with accurate daily historical pricing can be brought up almost instantaneously, such that one can calculate the theoretical profits that could have been made from "buying at the bottom and selling at the top".

The only investors that appear to achieve this are the same ones that have picked the winner of the Melbourne Cup every year (after the race has been won). Don't beat yourself up that you should have sold at every top and bought at every bottom. It can't be done, so don't expect that you should have.

4. How well am I really positioned?

Volatility is a great test of your portfolio's structure. Over time, through share price movements, winning positions become larger, and those investments battling become less significant. A period of market gyration is the perfect time to reassess your portfolio and critically analyse whether your current portfolio of companies, at their current prices, comprise the appropriate weighting in your portfolio. If they do not, it's time to make adjustments.

4. The tide will turn (but nobody will ring the bell at the bottom)

The most ridiculous and misleading advice I regularly hear is "*buy the dips*". The problem is, a dip is only apparent once it has passed. There is no secret to predicting, at the time, a dip or indeed getting sucked into a '*dead-cat bounce*'. Again, it is about having time in the market. Plenty of investors were panicking at the end of 2018, those that sold missed out on a 20%+ market return in 7 months. It is all part of the ride.

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