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Three Rules for Successful Bear Market Investing

The markets are ugly: through the first three quarters of 2022, the S&P 500 is down nearly 24%, and the bond market, usually a safe haven when stocks are dropping, has shed 13%. Plus, the US economy seems destined for recession (we might be in one already), inflation continues to be stubbornly persistent, and Russia's invasion of Ukraine, in addition to being a humanitarian tragedy, is causing dire economic effects.

All this bad news and accompanying market volatility increases our fears of uncertainty making us feel anxious and stressed. It's not fun. Yet, investors aren't powerless in the face of uncertainty; we can control our behavior. Below are three rules to help weather the bear market (defined as a market decline of 20% or more) and have better investing practices.

Rule #1: Adopt a Big Picture Perspective

I vividly remember New Year's Eve 2019 because I was on a ski vacation and attended a party at a beautiful condo in Vail, Colorado. At the party, I struck up a conversation with a college student interested in investing who, once realizing what I do for a living, asked what I thought the stock market would do in 2020. My answer was that it would probably be up, but it might also be down (that's my prediction every year, which you can access here: [2020](#), [2021](#), [2022](#)). The student thought my answer was hilarious (probably helped along by beer), and our conversation moved on to other topics.

I think about that conversation a lot. What if on that New Year's Eve I had a crystal ball and knew that a pandemic was about to sweep across the globe, killing tens of millions, shutting down vast swaths of the economy, and creating supply chain disruptions that would last years? What if I knew that Russia would attack Ukraine, that inflation would spike to over 9%, and that the Federal Reserve would increase the Fed Funds Rate by 3% within six months? If I had known all that in advance, what would my prediction for the stock market have been? It probably wouldn't be that even after a 24% decline in the first three quarters of 2022, the S&P 500 would still be up 16% compared to December 31, 2019! You read that right. Even with everything that has happened in the past (almost) three years, the market is up 16% (dividends reinvested). And the market is up 41% compared to December 31, 2018, and 164% since December 31, 2009. The lesson to draw is that even if you knew advance about what would happen in the economy, it wouldn't tell you what the stock market will do.

Whenever you feel anxious about your investments, reflect on how well you've done over the past five, ten, 20, and 30 years. As I advised in a recent article, don't focus on the high watermark of your portfolio. Instead, pull back and adopt a long-term perspective.

Rule #2: Don't Look at Your Portfolio

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Successful investing requires adopting a long-term perspective, but frequently checking your portfolio, especially when it's down, makes that challenging; it's like trying to see something in the distance while wearing reading glasses. Seeing the value of your investments drop can make it feel like you are under attack, making it seem like you need to take action. Yet making portfolio changes in response to emotions is not a best practice; numerous studies have found that trading activity leads to lower returns.

My advice? If you work with a financial advisor, let them monitor your portfolio and advise when you should take action. If you manage your own investments, only look at your portfolio at regular intervals, such as quarterly or semi-annually.

Rule #3: Just Keep Buying

Now is a better time to put money to work in the market than a year ago because prices are lower. Lower stock prices are welcome news if you are a long-term investor and plan on adding to your portfolio. Because market bottoms and tops cannot be called accurately, the best strategy is to keep buying as the market gyrates. Invest as the market declines and invest as it rebounds. It's a simple concept but not so easy to execute when it feels like the worst is yet to come. Plus, the stock market often rebounds while economic news is dire, so don't let bad financial news keep you from investing. History has shown that when markets are volatile, the best course of action is almost always to ignore both the markets and our portfolios.

An effective way to overcome emotion is to set up your accounts, so money is automatically invested (like how 401[k] plans work).

Conclusion

Unfortunately, suffering through bear markets is the cost of being an investor. You can't reap the benefits of investing without paying the cost. For years, investors have worried that the stock market's strong returns and high valuations aren't sustainable and that a bear market must be looming. Now the bear is here. Take a deep breath, broaden your perspective, don't look at your portfolio, and keep putting money into the market.

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