

Managing your money: Markets, emotions & you



Life has its cycles, as does the economy and financial markets. But when it comes to market cycles, emotions can get in our way. We often do the wrong thing at different phases, buying exuberantly at market highs and selling in a panic at market lows. Successful investors do the opposite.

The economic and market cycles and our emotions

Economic cycles can range from 28 months to more than 10 years. Stock market cycles have typically anticipated economic cycles by 6–12 months on average. The cycles are familiar. So are the emotions we feel at different phases, what we want to do versus what we should do.

It's valuable to have a long-term investment plan that includes a mix of stocks, bonds, and cash that aligns with your goals, time horizon, and your ability to manage risk. It's also important to review that plan regularly. It can help you to remain disciplined through cycles.

The top

All market cycles reach a top. At this point, growth is strong but moderating, unemployment is low, and interest rates are often falling. However, corporate earnings are under pressure, and the risk of a recession is rising. Growth has caused many investors to feel invincible, and many buy more stocks. They buy high—just as the market has crested.

What to consider: Instead of buying, most investors should think about selling some stocks to capture gains, especially if their allocation to stocks has risen above their long-term plan. Buying high-quality bonds might also help prepare for a cyclical drop.

Turning down

After the peak comes the trough. The economy is in recession and corporate profits are sliding. At first, investors hold out hope for the bull market to continue. But as prices fall, anger and regret set in along with the temptation to sell.

What to consider: Now the game is protection and patience. Going to cash can limit your ability to grow your money long term. If your asset mix matches your goals, it could make sense to continue investing.

Hitting bottom

Market bottoms are darkest before the dawn. The economy is in recession and corporate profits are falling. Stocks can drop more during this phase. A faint light is at the end of the tunnel as the Bank of England cuts rates. For investors, a market bottom is emotional. Even with a solid plan, you may feel defeated. This is a point of maximum pain, and a point of maximum potential.

What to consider: Perseverance is key. The measured path is to invest and if necessary, rebalance to your target mix of investments—not cash out and lock in losses. Stocks are on sale. Investors who buy in this valley have done well when prices begin rising. Historically, powerful rebounds have followed some of the deepest market drops.

Rebounding

After the bottom comes the emerging bull market. The economy is showing signs of a rebound, interest rates are low, and corporate profits are rising. So are stocks. But many investors have checked out and as the market rises, they miss the early rebound.

What to consider: Think like a contrarian. The stock market is rebounding. If you remained invested, you see some recovery. If your stock allocation has gone below plan, it's time to bring your portfolio back to your long-term target.

Rising again

The bull market is in play. The economy is expanding. Stock prices are going up. Near the cycle's end, corporate profits are less predictable, volatility heightens, with fewer market highs. Investors grow confident, even greedy. Many take their eye off their target mix of stocks, bonds, and cash and their portfolio drifts too heavily into stocks.

What to consider: Asset allocation cannot guarantee a profit or avoid a loss, but your target asset mix can hold greed at bay and prepare you for the next downturn. Rebalancing your portfolio now could include selling stocks and buying bonds.

The cycle of your financial life

Knowing where you are in economic and market cycles may help you improve your portfolio. You also need to know where you are in your financial life cycle—and how much risk you can take. That means reviewing your investment mix and ensuring it is right for your goals.

Saving years

If you are in your 20s or 30s, a heavy allocation to stocks may be appropriate. Your balance will drop during downturns, but if you stay with your plan you can be buying stocks when they are on sale, and your portfolio should rise during the bull phase.

Spending years

Perhaps you are at or near retirement. You have ridden the current bull market well and have enough saved. But your asset mix leans to stocks. As you will be living off savings, you may be more sensitive to losses. Consider meeting with an advisor, dialing back stocks, and building a more resilient portfolio.

Managing your emotions with a plan

Ask any successful investor their secret. The most common response is to make an investment plan—and stick to it. A strong plan includes a mix of stocks, bonds, and cash that aligns with your goals, time horizon, and your ability to manage risk.

Over time, discipline helps successful investors buy low, sell high, and build wealth. Stay in touch with your emotions and what's driving them—but don't let them get the better of you as an investor!

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