5 Investment Considerations in a Down Stock Market

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Throughout 2022, every day feels like it brings more bad news for the US stock market. For the year to date, more investors are facing the end of 2022 with investment losses. What does one do during a down stock market?

1. **RESIST THE URGE TO PANIC.** Talk through your concerns with your wealth management advisor. This is your money, and they're there to guide you. In general, you'll want to ride out this market downturn and resist the urge to sell. If you're considering exiting the market, be very cautious. There are numerous studies that show even modest amounts of time out of the market can significantly impact long-term returns just by missing out on the one or two best days of the year.

2. **IMPLEMENT A TAX LOSS HARVESTING STRATEGY.** Tax loss harvesting is a portfolio management technique where we sell an investment at a loss for tax planning purposes. Capital losses can be used to offset other capital gains or written off (up to $3,000 per year) on your income tax return. Any excess carries forward into future years. Rather than stay out of the market after the sale, you want to repurchase another investment that's not the identical security sold. This maintains your investment exposure and avoids wash-sale rules.

3. **EVALUATE FOR PORTFOLIO REBALANCING.** Typically, when investing for the long term, investors have a strategy in place to allocate funds to a specific mix of investment vehicles. For instance, 50% of your investment dollars are in stocks and 50% in bonds. With those targets in mind, we look to rebalance to take advantage of market shifts and stay on allocation. Typically in a down stock market, high quality bonds tend to hold their value or even go up. This year is especially challenging because many bonds are also down, though in many cases, not as much as stocks. Despite that, be sure to evaluate your situation. There may be opportunities to do some fine-tuning to best position you for an eventual market recovery.

4. **CONSIDER YOUR YEAR-END TAX SITUATION.** When your investments are generating more income and capital gains, they may put you in a higher income-tax bracket. This year, you may find yourself in a lower income-tax bracket. We always look at our client's expected tax situation before the end of the year to evaluate for planning opportunities. This year is especially important to do that. We'll want to evaluate taking advantage of your lower income by converting an IRA (which is taxed when the money is withdrawn) into a Roth IRA (which is taxed when you contribute to it).

5. **LOOK AT YOUR CASH RESERVES.** If you have excess cash beyond your protective cash reserves that you won't need soon, you'll want to evaluate investing it into the market. When we look at data going as far back as the 1980s, history shows when the market does recover from periods like this, it does so at well-above average levels. While it's difficult to know when a market has reached its low point, these type of market conditions present opportunity for those with a long investment time frame.

BONUS: EVALUATE YOUR BEHAVIOR AS AN INVESTOR. When someone first sets up their investments, they may overestimate the amount of risk they are comfortable taking on. How you're handing this current market downturn, however, offers great insight into your true risk tolerance. It helps you understand how it feels to experience the losses, the uncertainty and the fear.

If you're not sleeping well, worrying about your portfolio, or thinking about cashing out, you may have taken on more risk than you're comfortable with. This knowledge helps you be proactive in setting up your investments more appropriately in the future, ahead of the next time the market takes a downward turn.

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