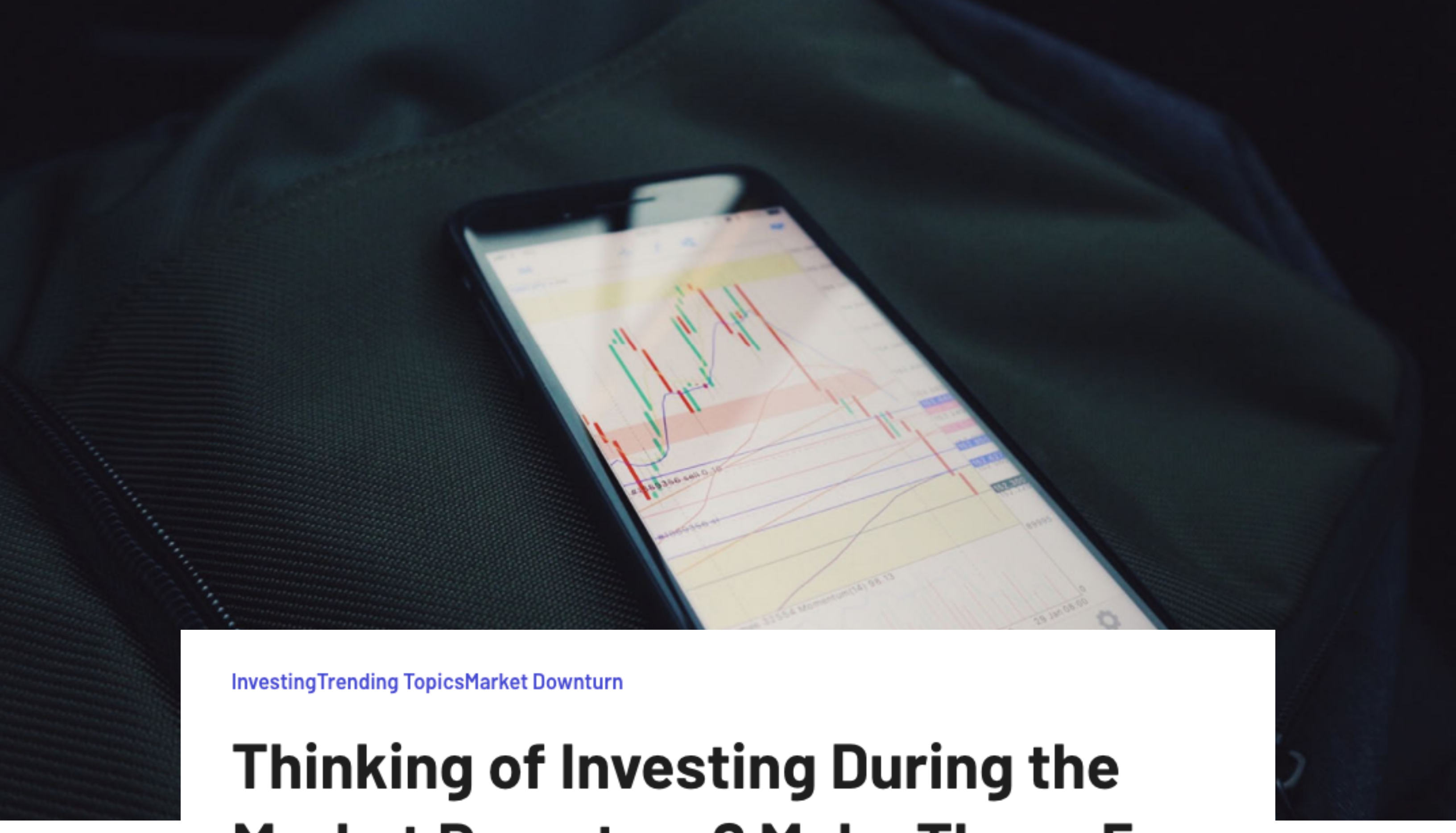

InvestingTrending TopicsMarket Downturn

Thinking of Investing During the Market Downturn? Make These 5 Considerations First

March 24th, 2020

With the onset of COVID-19 in America, investors saw the 11-year run of our bull market come to an end on March 11, 2020. As we entered a bear market, the Dow Jones Industrial Average experienced a more than 20 percent drop in March from its recent high on February 12, 2020.[1]

While many investors are losing confidence in their investments due to the recent market volatility, there are those out there who may find this an opportune time to pad their portfolio. If you're wondering if now's a good time to invest, start by taking these considerations into account. Then, if you're still interested, get in touch with your investment advisor to review your options.

Why Invest During a Recession?

Choosing to invest during a market downturn can make a lot of sense - asset prices have fallen hard, meaning those willing to invest now can likely get bonds, stocks, real estate and more for a fraction of what those assets are normally worth.

Those who were looking to cash out this quarter are in a difficult place with the market drop. But those who are still years, or even decades, away from cashing out what's in their portfolio may be the ones who can really benefit from this downturn in the market (this is often the case for young investors just starting to build and diversify their portfolio). They have the time needed to watch the market recover and their bargain-priced assets slowly regain their value.

Consideration #1: Is My Emergency Fund Fully Stocked?

With the uncertainty this global pandemic has brought on in America, many people are preparing for the worst - job loss, medical bills, or even the unexpected loss of a loved one. And as we continue to weather this bear market, we are already seeing record numbers of Americans filing for unemployment. We are still early days into this crisis, but if we look back at the 2007-2009 recession, unemployment rose to five percent at the end of 2007 and up to nine and a half percent in June 2009. Unemployment actually didn't peak until after the recession ended, at 10 percent in October 2009.[2]

Even if you're certain your job is secure and stable, it doesn't mean you're immune to loss of income during this market downturn. The number of cases of COVID-19 is growing every day, meaning it's entirely possible that you may need to care for a sick loved one in the near future. Depending on your job's policy on leave and your eligibility for the recently passed Families First Coronavirus Response Act, this could mean going for an extended period of time without a paycheck or having to quit your job altogether.

You'll find different people recommending different amounts, but a general rule of thumb is to have three to six months of salary available in a savings account as an emergency fund. As you consider putting your additional income towards investments, take a look at your savings first. You should feel comfortable with what you've already accrued and ready to live off of your savings if you had to. Once that's taken care of, then you may be ready to turn your focus toward investments.

Consideration #2: Would It Be Better to Pay off My Debts?

In the fourth quarter of 2019, the New York Federal Reserve reported that American household debt rose to $14.15 trillion.[3] While the majority of this debt covers things such as housing, auto loans and student loan payments, this still leaves $46 billion in credit card debt.[3] If you find yourself in the position of choosing between paying down your debt or investing, there are plenty of factors to consider, and this would be something to consult with your financial advisor about. Working together, you may find that paying off debt will serve you better over increasing your investments.

Consideration #3: Am I Rushing Into This?

While it feels like the market tumbled overnight, it's important to remember that recessions and downturns tend to stick around for a while. Our last recession, for example, lasted 18 months.[4] What does this mean for an investor eager to jump in? It means you have time. You can speak with your financial advisor and discuss the pros and cons of investing during a market downturn. There's no need to make a hasty, emotionally driven decision by tomorrow. While the markets will continue to fluctuate, they're not recovering overnight.

Consideration #4: Am I Emotionally Prepared to Watch My Money Drop?

If you choose to buy while the market is in a downturn, there's always a chance that you will buy when it has yet to reach "rock bottom." This means that you, as an investor, should be prepared for the rollercoaster your investments will likely continue on. While investments are always fluctuating, during an especially volatile period, there's a good chance you'll be watching your stocks rise and fall on a downward trend for months to come.

We all have a personal attachment to our money, and it's important to consider the emotional toll watching your assets drop in value will have on you as an investor. If it's unbearable to watch these fluctuations, then the potential gains may not be worth the emotional toll you have to endure. It's important to express your concerns about this to your financial advisor before deciding to invest during a market downturn.

Consideration #5: Am I Still Following My Normal Investment Procedures?

Don't treat the tempting prices of investment opportunities as a chance to forego your investment strategy or plan. This is a time in which you'll want to be precise and logistical about the next investment decisions you make. It's possible, for example, that your advisor may want to still invest in the companies and stocks you're familiar with, not just those with the biggest drops in price.

In addition, you'll want to work in tandem with your advisor to be sure you're maintaining diversity and taking on an appropriate amount of risk. Together, you can be sure that these changes in your portfolio are still reflective of your greater long-term financial goals.

Americans in 2020 are facing a future of uncertainty, between the global pandemic of COVID-19 and the economic instability of a recent market downturn. If you're in a position to do so, investing now could prove to be a beneficial move for your portfolio, but it is important to consider your decision carefully and thoroughly. Now more than ever, be sure to keep your advisor in the loop and consider your next financial decisions carefully as you navigate through these upcoming months.

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1. *https://www.economist.com/finance-and-economics/2020/03/14/entering-a-bear-market*
2. *https://www.bls.gov/spotlight/2012/recession/pdf/recession_bls_spotlight.pdf*
3. *https://www.newyorkfed.org/microeconomics/hhdc.html*
4. *http://www.nber.org/cycles/*