Investing in a Time of Acute Anxiety

Article by Sam Sweitzer

We don’t use the word ‘valor’ much anymore. It seems antiquated and almost cheesy.

I remember liquidating all my mutual funds in late 1996. It was the day after Allen Greenspan testified before Congress and described the “Irrational Exuberance” of stock markets. The psychological pain of giving up gains for the next three years was painful.

In this time of acute anxiety, it is painful to reinvest your increasingly precious cash. As this COVID-19 crisis continues to build, formerly reasonable people will start to predict the end of the world. They will appear on TV, armed with terrifying and accurate data that will serve to reinforce the wisdom of your caution. Every decline will enhance the beauty of cash until a type of terminal paralysis sets in.

Those who came into this crisis over-allocated to equities will be catatonic. Almost always, they will stare at their accounts, sit very still, and pray. Those few who look brilliant, oozing cash, will not want to give up their brilliance. So almost everyone is watching and waiting. In both situations, their inertia will set in like concrete. As a result, those with lots of cash miss a considerable chunk of the market recovery.

Terminal paralysis is cured with a well-thought-out battle plan for reinvestment. Make the plan and stick to it firmly. Execution will take strength of mind.

Reinvesting after 9/11 and reinvesting during the 2008 Financial Crisis taught me that one significant move into stocks at the absolute low is nearly impossible. Unless you have a contract with the devil, timing the bottom is fraught with difficulty. Instead, here are the steps that worked well for me during those two previous market crashes:

1. Define what your long-term stock/bond mix is going to be
2. Define what it’s going to take to invest fully.
3. Move money from cash to stocks in several definite steps. Your plan may look like this:
    a. When markets declined by 20%, add 10% to stocks
    b. If markets decline by a total of 30%, add 10% to stocks.
    c. If markets decline by a total of 40%, add 10% to stocks.
    d. You get the idea.

Remember, you will never ‘catch’ the absolute low: Sensible value-based investors will always sell too early in bubbles and buy too soon in busts. In return, you will likely earn a higher return on less risk than investors who:

- Have bought on greed and sold on fear
- Have ignored their portfolios.

When emotions are removed from investment decisions (and don’t kid yourself, to be human is to feel emotions, especially about money), investing strategy becomes much clearer. Life is simple: If you invest too much too soon, you will regret it; “How could you have done this with the economy so bad, the markets in free fall, and the history books screaming about 100-year plagues?” On the other hand, if you invest too little after talking about handsome potential returns and the market rallies, you deserve to be shot. Smart investors must balance these competing costs. Perversely, seeking for optimality is a snare and a delusion. It will merely serve to increase your paralysis.

Last, be aware that markets do not turn when investors see the light at the end of the tunnel. Markets turn when all still looks black, but just a subtle shade less black than the day before.

In my Air Force squadron, there was an inscription over the door which read, “In valor there is hope.” Over the next several months, the execution of a well-thought-out plan with your life savings is going to take valor. As I look back on the past 24 years, I realize that successful investing takes consistent discipline and unemotional courage. Perhaps ‘valor’ isn’t so antiquated after all.