5 Lessons Learned from the 10 Year US Bull Market

By Eve Kaplan, CFP®

We're celebrating 10 years of a remarkable bull market in US stocks. Here are 5 lessons reinforced during this time:

Lesson 1: Stay the Course When Things Get Rough

The 2008-09 crash seemed to be The End of the World because the entire banking system (with knock-on effects *worldwide)* was in meltdown mode*. If* you put extra cash into the US market in 2008-09 then you made out like a bandit. But most investors didn't have the nerve or extra cash to add to existing investments, so they either 1) DID NOTHING ("stayed the course") OR 2) they bailed and locked in severe losses. The best way to respond to market pullbacks is to "stay the course." Investors who bailed and locked in losses often ended up in cash for years, insuring that their re-entry would be at far higher prices. Admittedly, it took years to recover to pre-crash levels but "staying the course" is the best option.

Lesson 2: Dollar Cost Averaging Works, Market Timing Does NOT

Once the market bottomed in 2009, it made sense to continue to dollar cost average into markets if you still were working and saving for retirement. Dollar-cost averaging remains a great way to smooth market entry. Timing markets is an illusion (e.g. thinking they'll go higher or lower due to some event) doesn't work. Every year data show that investors do worse than the market due to market timing as a response to market volatility. In 2018, US investors lost twice as much (nearly 10%) as the S&P 500 (-4.4%)! Investors who chase past performance get their fingers burned. Example: if a mutual fund outperforms its benchmark based on 3 years of annualized returns, *only a fraction will go on to outperform* (data from

2012-18).

<u>Lesson 3: Having an Emergency Bucket Helps You In a Down Market</u>

Depending upon your time horizon it’s smart to retain *at least* 6 months of cash reserves if you’re working, and 1-2 years of cash reserves if you’re retired. The exact amount depends upon your core living expenses net of streams of income (pensions, Social Security, Required Minimum Distributions [RMDs] from IRAs, etc). And speaking of cash for RMDs, it’s a good idea to retain some cash reserve in IRA accounts if you’re over 70 ½ so RMDs can be executed without selling in a down market.

<u>Lesson 4: The Underlying Cost of Investments Remains Important</u>

Astute advisors and investors pay attention to the underlying expense ratio levied on mutual funds and ETFs. Investors typically ignore these fees when the market is rising. Mutual funds and ETFs provide excellent diversification well worth the price, if fees typically don’t exceed e.g. 1/3 of 1% (0.3%). However, the average active mutual fund charges over 1% per year. <u>This fee isn’t visible to the investor</u> – it simply is subtracted from the total return.

<u>Lesson 5: Saving and Investing In Markets – Regardless of Current Events – Is More Important Than Ever</u>

We Americans are unprepared to fund lengthy retirements that can last 30 years or more. We’re living longer than ever and medical costs are mounting. If you unexpectedly need to help family members or you don’t have long-term care insurance, your risk of outliving your assets increases further. The best way to reduce these risks is to work with a **Fee-Only advisor who has a Fiduciary obligation to put your interests before his/own.**

Many of these “lessons” are timeless and equally relevant in up or down markets. A good advisor will observe and practice them. And with all due respect, “Caveat Emptor” (buyer beware) if you’re getting piecemeal financial planning advice from a broker who earns his/her keep by selling you commissioned mutual funds and other products!