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Advice After Stock Market Drop: Take Some Deep Breaths, and Don’t Do a Thing

A trader at the New York Stock Exchange on Friday. The Dow Jones industrial average dropped 3.1 percent on the day and the Standard & Poor’s 500-stock index fell below the 2,000 mark.Credit...Brendan Mcdermid/Reuters

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The impulse when the stock market falls hard for a few days in a row is to do something. Anything. Our life savings are often on the line, after all.

But that’s just the thing: Stocks are most useful for long-term goals. So unless those goals have changed in the last few days, it probably doesn’t make much sense to overhaul an investment strategy based on a blip of market activity.

So pour yourself a drink, or sit down with a pint of ice cream, and consider the following six things.

First, you are not the stock market. Chances are, your portfolio is a diverse mix of investments. Many people save in target-date mutual funds that do the work of diversification for them. Vanguard's 2035 fund was down 4.6 percent last week, better than the 5.77 percent decline in the Standard & Poor's 500-stock index from where it closed a week earlier.

Second, if you have been investing in stocks in the last six years, you most likely are a big winner. It's generally a bad idea to look at your investment statements too often, but take a quick peek.

That outsize gain you see is one reason you are in stocks in the first place. Plenty of research shows that if you miss just a few days of the market's biggest gains, your long-term portfolio will suffer badly. If you decide to put a bunch of your money in cash this week, how will you know when to get back in the market? You'll probably be looking for a sign, and that sign will be the very rebound days that you will have missed out on.

Still uneasy? Consider a third point: At some time in the past, when you were not scared, you made a decision to construct your portfolio a certain way. You knew that stocks involved risk and that the returns they have traditionally delivered, above and beyond what cash and bonds do, was the reward for your persistence.

Nothing about the events of recent days suggests that the fundamentals of capitalism have changed. So neither should your confidence in very long-term ownership of the pieces of the for-profit enterprises that benefit from your fortitude.

Nobody knows for sure whether we're in for a decline in the stock market of 25 percent or more. But if such a decline does happen and you are a regular investor, you'll be buying more when prices are lower.

Which brings us to point No. 4: Long-term investors have time to recover. I know too many 70-year-olds who sold all of their stocks in 2009 and are healthy enough to live to 100. They'd be going on a lot more vacations now and be worrying less about long-term care if they had held firm.

Worried about a 529 college savings plan for a 12-year-old? Hopefully, you weren't 100 percent in stocks with six years to go before needing money for tuition. Still, you have at least nine years for a portion of that portfolio to recover from any sustained downturn. If that 12-year-old is the oldest of at least two children, you could use cash to pay some tuition bills for the eldest and let some of the account ride even longer for the next child.

Let's say you still have trouble sleeping. Then you may be the sort of person who needs to consider a fifth point: Some people cannot handle the stress of investing in stocks. But try to give this more time, and consider the alternatives. There are few investments that can deliver the kinds of returns that stocks can without their own accompanying anxiety.

Another alternative is to save a lot more in safer investments like cash or certain bonds. Most people don’t have enough income to do that easily, so settling for lower returns will mean a combination of working longer and living modestly, forever. For some people, that is a fine trade-off.

One final point for new investors (and their parents and grandparents, who ought to be counseling them right about now): This is what markets do. There is absolutely nothing abnormal about what is going on here.

Most of us have to save somewhere, and history suggests that stocks are the most accessible route to get the returns you’ll need to retire someday. It would take decades of systemic economic erosion to prove otherwise, and a few days of market declines do not suggest that anything like that is upon us.

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