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Stock market losses have you reeling? Experts offer tips to cope

With the S&P 500 down nearly 20% since the beginning of the year, investors are wondering where to turn.

Credit: Getty Images/DNY59

By Ken Schachter
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Long Islanders are taking it on the chin.

A bear market has pummeled their IRAs, 401(k)s and other investments this year. The S&P 500, an index of the largest U.S. public companies, is down 19.6% year-to-date and the tech-heavy Nasdaq Composite is down 29.9%. That financial pain comes on top of gnawing inflation, cracks in median home prices and a recession that could be waiting in the wings — unless it's already here.

The downturn's impact ripples far beyond Wall Street. Investing is not just for the ultra wealthy. Almost 60% of Americans have a stake in the stock market, including retirement accounts, stocks and mutual funds, according to a survey conducted in April by pollster Gallup. Those numbers go up to 89% among those with annual household incomes of $100,000 or more, a financial threshold well below the median in Nassau and Suffolk counties.

This year has been particularly difficult for investors because there has been almost no place to hide in the most common financial assets, stocks and bonds. Persistent inflation has prompted the Federal Reserve to raise interest rates, with the next hike expected Wednesday.

Interest rates and stocks tend to move inversely. In other words, historically, as interest rates rise, stock valuations fall. That's because companies' borrowing costs rise and higher bond yields offer investors a lower-risk alternative to stocks.

But rising interest rates also cut the value of previously issued bonds. For instance, if an investor has a bond that pays 5% from the Widget Co. and that company is later forced to issue new bonds at 10% to attract investors in a higher rate environment, the value of that previously issued 5% bond will fall (though the investor can still get his principal back if he holds to maturity). The Vanguard Total Bond Market exchange-traded fund (BND) has fallen about 17% year-to-date, a signal of an unusually harsh year for fixed-income investors.

Going to cash shelters principal, but, in real terms, that money is getting eroded by inflation. Money market funds and certificates of deposit have offered returns that are only marginally better (though perhaps more secure) than stuffing cash in a mattress.

Among the few winners were investments in areas tied to rising commodity prices. For instance, the XLE, a fund that holds oil companies, is up about 60% year-to-date.

To gain perspective on a year that has left investors reeling, Newsday contacted an academic, a market historian, money managers and a self-directed investor who leads Meetup groups.

A note of caution: None of the experts we spoke to had a crystal ball or a silver bullet. Unforeseen "black swan" events — from wars to pandemics to leaps in technology — can impact finances and the wider world. As we evaluate the "known knowns" and "known unknowns" in investing, be wary of the "unknown unknowns" lurking in the shadows. Investing demands a balance between risk and reward. An investor's age, goals, lifestyle, family situation, retirement horizon, tax situation and health status all come into play, along with the size of their portfolio and real estate holdings.

The power of the little guy

As a finance professor at Stony Brook University, Danling Jiang researches investing and behavioral finance.

Though individual investors sometimes are subject to misguided strategies and emotional swings, she said they "have the power to do better than institutional investors."

The reason: Institutional investors — the so-called "smart money" — are slaves to quarterly metrics, creating a short-term bias.

"Institutional investors can get fired," Jiang said. "They don't have a paycheck if they have too much in losses."

Individual investors, meanwhile, are free to adopt a long-term horizon and tailor their work life and investments to fit their own needs.

For instance, investors can best evaluate their "background risk," such as the potential of losing a job. To create a buffer against unexpected setbacks, Jiang advises everyone to accumulate a cash stash to stay afloat.

Rather than just lamenting rising prices amid a chronic labor shortage, she said this could be the time to take on a part-time job to keep up with inflation.

"Think about your human capital," she said. "This is creating a hedging opportunity for everybody. That gives us a lot of power in the long term."

The bear market in stocks and bonds also could be considered a "great opportunity," given that investments are selling for bargain prices compared to their market highs, she said.

Jiang, who sees inflation lingering amid a trend toward de-globalization and shifting manufacturing to higher-cost countries, said investors should look beyond the standard stock and bond portfolio mix to consider diversifying by getting exposure to precious metals, energy, agriculture, fertilizers and cryptocurrency.

Dollar-cost averaging, investing a set amount at defined periods, is one way to manage risk.

"If you have a plan, stick to the plan," she said, and "be patient."

"Octoberphobia"

Wall Street has its own culture and philosophy, most of it related to how to make money.

Among its aphorisms: "The end of the world only comes once" (subtext: Don't get scared out of the market); "Be fearful when others are greedy and greedy when others are fearful" (subtext: Be a contrarian); "Don't fight the Fed" (subtext: Underestimate the impact of the central bank at your own peril).

The investment world also has its own intellectual divining rods. The hemline index posited that stock prices rise and fall in line with skirt lengths; the Super Bowl indicator said that stocks go up in years when the championship is won by an NFC or original NFL team.

Jeffrey A. Hirsch, a stock market historian and editor in chief of Stock Trader's Almanac, based in White Plains, said that the hemline index and similar gauges are generally useless.

"A lot of those anecdotal indices don't work anymore and never did," he said.

Still, cyclical and seasonal trends are worth heeding, said Hirsch.

October is arguably the scariest month from an investing perspective.

Thirty-five years ago on Oct. 19 the Dow Jones Industrial Average tumbled about 23% —its largest one-day percentage decline — on Black Monday. October also saw major declines in 1929, 1978, 1979, 1989, 1997 and 2008.

At the same time, Hirsch said, October has a history of turning the tide of bear markets, marking bottoms in 1956, 1960, 1966, 1987, 1990, 1998, 2002 and 2011.

Hirsch said that a steep stock market selloff amounting to a "capitulation" in investor psychology could represent a bottom to the latest bear market.

"It's a little scary for everybody," he said. "We need some despondent selling."

The mid-term election in November bolsters his hope for a bull market rally.

"The six months after the mid-terms is the best six months of the election cycle," with an average gain of 15.2% for the S&P 500, he said.

A dissenting note: Data published by Bloomberg suggests that the bear market could have longer to run. The average bear market falls 38% from top to bottom and lasts about 15 months, according to the data, an indication that the current bear market could go deeper and longer.

Additional factors to consider: Business titans like Amazon founder Jeff Bezos and JPMorgan chief executive Jamie Dimon are forecasting a recession. Their view is supported by an inverted yield curve (often defined as when the interest rate on 2-year Treasuries climbs higher than that on 10-year Treasuries). Such inversions sometimes precede a recession. The lower long-term rates, which would be typical in an economic downturn, reflect the market's expectations.

A recession could mute consumer demand (cutting into corporate revenue and profits), but it also could prompt the Fed to pause or stop its program of interest rate hikes designed to cut inflation.

For a look at an online dashboard that provides several overall stock-market valuation tools, go to currentmarketvaluation.com.

Cash is not trash

Despite the common Wall Street refrain that "cash is trash," the asset class has performed better this year than standard portfolios of stocks, bonds and the common 60-40% mix of the two.

Craig J. Ferrantino, founder and principal at Melville-based Craig James Financial Services LLC, said that cash has been one of the few refuges from market volatility.

Craig Ferrantino, founder of Craig James Financial Services in Melville, looks for investments that match clients' risk profiles. Credit: Jim Lennon

Depending on the profile of the investor, Ferrantino said that short- to medium-term municipal bonds look attractive as do Treasuries.

"The magic number for people is [an interest rate of] 4 to 5%," he said. "If we can get clients consistently around 4% and take a lot of risk out of it, it might be a good place to be."

Ferrantino said that for investors over 65 "we dial down the risk."

For younger investors with a longer time horizon, he said this is an opportunity to buy quality companies, including the FAANG growth stocks (Facebook, Apple, Amazon, Netflix and Alphabet's Google) at a deep discount.

"When the economy rights itself, you'll be in a great position," he said.

Watching the charts

On Wall Street, there are many flavors of fundamental analysts, some who like growth stocks and some who like value stocks (think of a growth stock as a high-priced turbo-charged Corvette that can burn rubber and a value stock as a modestly priced Toyota Prius that saves on gas, will get you to your destination, but won't turn a lot of heads).

Fundamental investors look at factors like how the company's sales, cash flow and net income compare to its stock price and how those ratios compare to other stocks.

Technical analysts, meanwhile, look at charts that illustrate a stock's price movements and trading patterns. For instance, traders using technical analysis might feel that if a stock's price breaks through its 20-day moving average, it's time to buy.

Retired pharmacist James De Franco has the bulk of his retirement money in municipal bonds, which he bought when he sold his business in 2007.

"I'm getting 5% tax free," he said.

But in his spare time, he trades stocks and leads Meetup groups with several thousand investors who learn and share ideas.

De Franco said he checks out the fundamentals of companies with publications like Investor's Business Daily, but uses technical analysis to time his purchase.

The Franklin Square resident said he buys quality companies such as recent acquisitions Merck and Campbell Soup and puts in stop orders, which trigger a sale if a certain price is breached, to limit his losses. At the same time, De Franco said, he will sell if a stock shoots up.

"If I see it going up 10-20% in one day, I'm out," he said. "I'll follow through on my plan."

"Your personal economy"

A recession could arrive, but it's far from a foregone conclusion, said Mitchell Goldberg, president of Melville-based investment advisor ClientFirst Strategy Inc.

More important than worrying about the macroeconomy, he said, is taking stock of "your personal economy," such as the stability of your job.

"Like the old expression says, if your neighbor loses her job, it's a recession. If you lose your job, it's a depression," Goldberg said.

Getting to know yourself is an investment in time well worth making, he said.

"The best investment is the one that people pay attention to the least," Goldberg said. "And that one is taking the time to first understand your personal finance, risk tolerance, and time horizons to your goals. Once you have that down, you won’t be caught flatfooted when the stock market goes down and question everything you’re doing."

For those in the workforce, he recommends demonstrating your worth by earning new certifications or credentials.

"Make yourself more valuable," Goldberg said.