Opinion: Gloom casts a pall over the stock market. Financial experts say these are the ways you can stay invested.

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By Beth Pinsker Following

In an extended downturn, it can be hard to keep the faith that markets will go back up. But they always do.

It might feel as if it's all downhill for markets, but experts say to stay invested. DPA/AFP VIA GETTY IMAGES

SPX -0.02% VIX -0.23% TMUBMUSD10Y 3.492%

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In the new Netflix documentary "Get Smart With Money," financial counselor Shareef "Ross Mac" McDonald tries to persuade a struggling NFL player, Teez Tabor, to invest in the stock market.

"The easiest way to be a player in the game is to put your money in the S&P 500 **SPX, -0.02%**, because on average, that's going to grow at 10% each year," he says.

The show, of course, was filmed before the latest market downturn, which has the S&P 500 down nearly 20% this year and the VIX volatility index **VIX, -0.23%** on the rise. As we enter another difficult week for stocks, McDonald has been posting on his Instagram channel, @imrossmac, about signs that suggest we might be headed into a global recession.

Tabor, meanwhile, was just picked up by the Seattle Seahawks. So he can probably weather the downturn by working through it, the way most financial advisers would advise clients who are fretting that markets aren't bouncing back the way they did at the start of the Covid-19 pandemic.

The Federal Reserve's policy-making committee this week is expected to raise official interest rates by at least 75 basis points for the third straight meeting, the most hawkish stance in over 40 years. Higher rates to root out embedded inflation has shocked the stock and bond markets this year. The economy has shrunk for two quarters in a row.

"People have that recovery anchored into their heads, but this time it might not be a V-shaped recovery. It might be U-shaped instead," says Caleb Pepperday, a certified financial planner at JFS Wealth Advisors in Pittsburgh.

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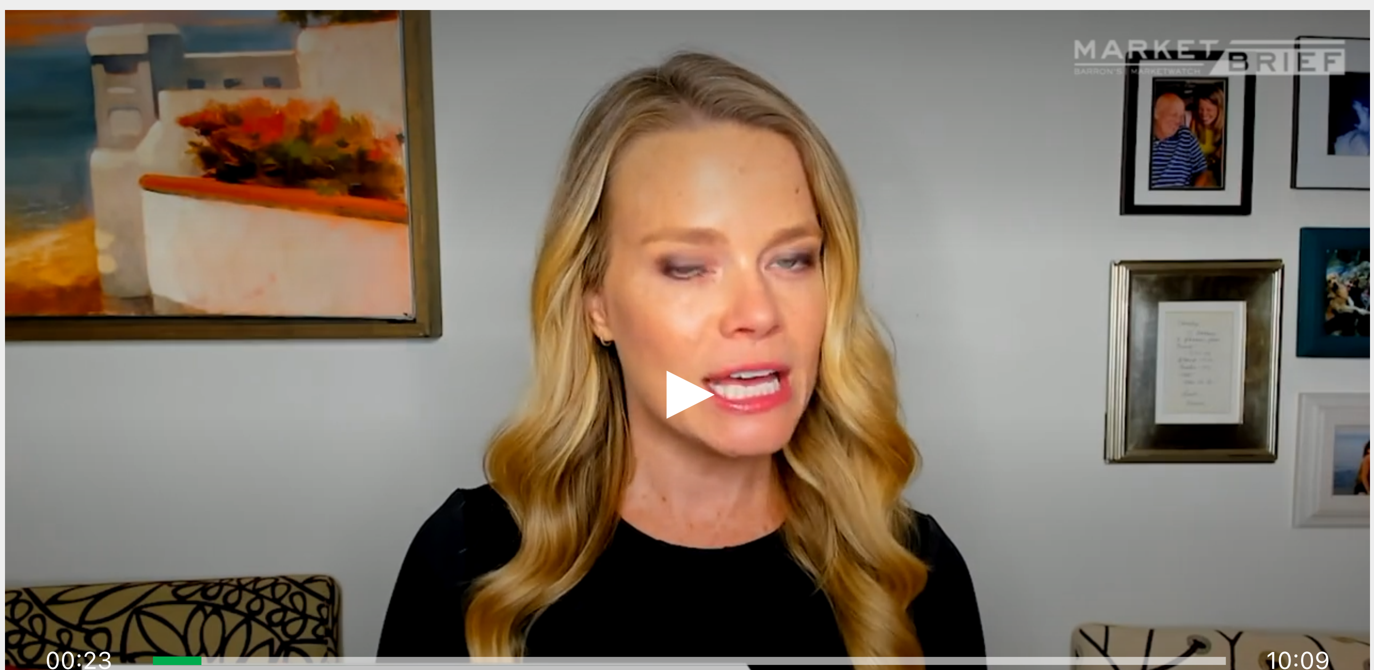

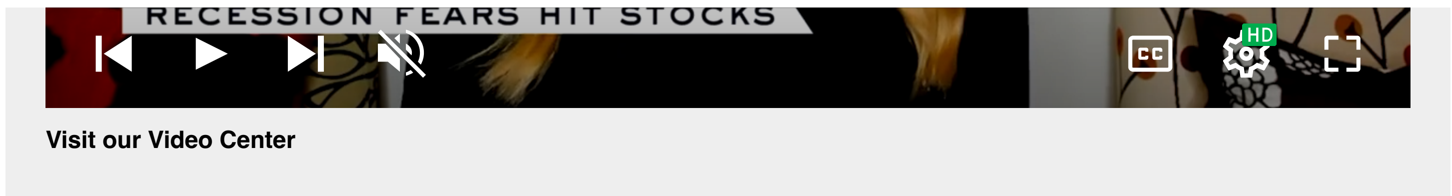

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But that still underscores his hope, and near certainty, that markets will eventually go up again. They always have, after all. In the past 100 years, there's never been a 20-year period in which the U.S. stock market didn't generate a positive return.

'Stomach the risk'

"You have to stomach the risk in the short term, which is painful, but in the long term, things will get back to normal," says Roger Aliaga-Diaz, global head of portfolio construction at Vanguard.

For financial planner Scott Bishop, of Avidian Wealth Solutions in Houston, Texas, the market downturn is a buying opportunity. His strategy with client money is to keep a portion of their portfolios, usually around 10%, in laddered Treasury bills spread out in two-week increments, going out about six months to a year. As each tranche comes due, he and clients decide how they are feeling about the market at that moment.

"I ask: Are we OK putting money in? And if not, we'll push it to the back of the line," Bishop says, and reinvest it in Treasurys **TMUBMUSD10Y, 3.492%**.

If there's a sudden buying opportunity, like the S&P 500 falling past a key support level, then he might accelerate the two-week cycle and sell the next maturing T-bills early to free up cash to buy equities.

"It's instant-day liquidity, so I can deploy, and then I send an email to clients to update them," he says.

'Always have some cash on hand'

What you do about stock market downturns depends largely on your time horizon for needing the money. The holding strategy works best for those who can wait it out for at least three to five years. That even goes for retirees who have a portion of their nest eggs invested, says Ed Slott, a retirement expert and founder of IRAHelp.com.

"But you should always have some cash on hand in your IRA or other investments that can be like an emergency fund, so you can use that if you need it instead of having to dig into stocks in a declining market," says Slott.

People over age 72 who are subject to required minimum distributions from their qualified retirement plans like IRAs and 401(k)s know far in advance what cash they'll need for the year and should plan well

ahead. The amount is based on a formula that factors in your age and last year's account balance, so it might feel like a bite this year, given that your balance is likely lower.

If you do have all of your IRA invested, Slott suggests speaking to a financial adviser to figure out which items you might want to liquidate to meet the RMD amount or the living expenses you need.

If you really don't want to cash out of your equity holdings, you can transfer them to a taxable brokerage account in kind.

"You still pay the tax on the amount, but then you'd have the stock in a regular account, so you never really sold it," says Slott.

The key thing to remember about stock market downturns, according to Slott, is this: You don't have less until you sell.

"If you sell when stocks are 30% down, you need to make 43% to get back to where you were. If you have anything that makes 43%, that's probably beyond the risk tolerance level anyone would be comfortable with," Slott says. "That, in a nutshell, is the problem with withdrawing in a declining market."

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