

Markets, emotions, and you

Understanding market cycles and your emotions can help you be a better investor.

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Key takeaways

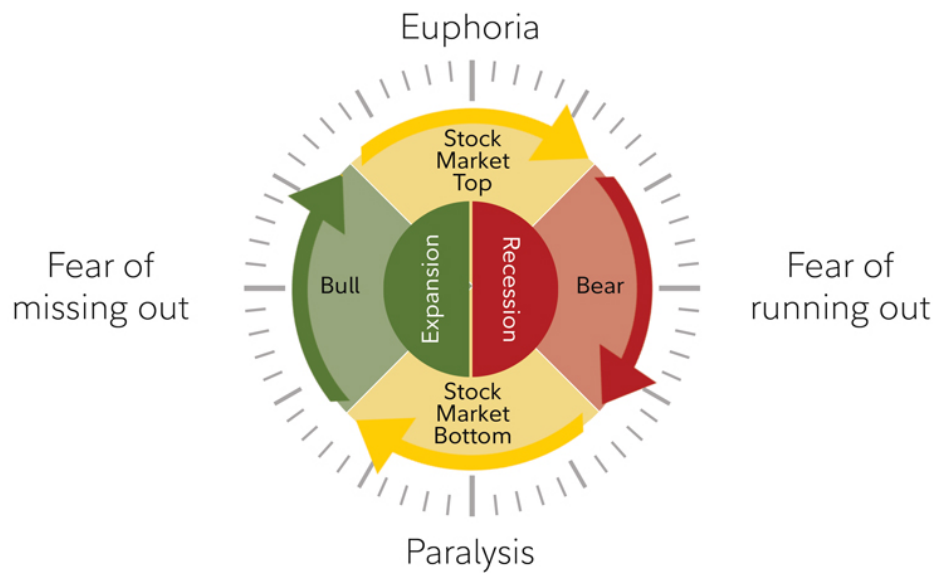
- ✓ **Markets move through predictable cycles from bull to bear and back.**
- ✓ **Emotions can get in the way of successful investing, tempting us to sell at market bottoms, and buy at tops.**
- ✓ **The best way to navigate inevitable market ups and downs is to have an investment plan that meets your goals, time horizon, and style—and you can stick with.**

Life has its cycles, as do the economy and the financial markets. But when it comes to market cycles, emotions often get in our way. We often do the wrong thing at different phases, buying exuberantly at market highs and selling in a panic at market lows.

Successful investors do the opposite. Warren Buffet says: “Be greedy when others are fearful and fearful when others are greedy.”

Markets and moods

How economic and stock market cycles drive investor emotions



The economic and market cycles and our emotions

Economic cycles range from 28 months to more than 10 years. Stock market cycles have typically anticipated economic cycles by 6–12 months on average. The cycles are familiar. So are the emotions we feel at different phases, what we *want* to do versus what we *should* do.

When markets shift, it's valuable to have a long-term asset allocation plan that can be rebalanced to a target mix of stocks, bonds, and cash. Such a plan can force you to remain disciplined through cycles—so you can buy low and sell high.

The top

All market cycles reach a top. At this point, growth is strong but moderating, unemployment is low, and interest rates are often falling. However, corporate earnings are under pressure, and the risk of a recession is rising. Growth has caused many investors to feel invincible, and many buy more stocks. They buy high—just as the market has crested.

What to consider: Instead of buying, most investors should think about selling some stocks to capture gains, especially if their allocation to stocks has risen above their long-term plan. Buying high-quality bonds might also help prepare for a cyclical drop.

Turning down

After the peak comes the trough. The economy is in recession and corporate profits are sliding. At first, investors hold out hope for the bull market to continue. But as prices fall, anger and regret set in along with the temptation to sell.

What to consider: Now the game is protection and patience. Going to cash can limit your ability to grow your money long term. If your asset mix matches your goals, it could make sense to continue investing.

Hitting bottom

Market bottoms are darkest before the dawn. The economy is in recession and corporate profits are falling. Stocks can drop more during this phase. A faint light is at the end of the tunnel as the Fed cuts rates.

For investors, a market bottom is emotional. Even with a solid plan, you may feel defeated. This is a point of maximum pain, and also a point of maximum potential.

What to consider: Perseverance is key. The measured path is to invest and if necessary, rebalance to your target mix of investments—not cash out and lock in losses. Stocks are on sale. Investors who buy in this valley have done well when prices begin rising. Historically, powerful rebounds have followed some of the deepest market drops.

Rebounding

After the bottom comes the emerging bull market. The economy is showing signs of a rebound, interest rates are low, and corporate profits are rising. So are stocks: The average increase in the S&P 500 the year after the bottom of a market cycle is 47%.

But many investors have checked out, and as the market rises, they miss the early, often powerful, rebound.

What to consider: Think like a contrarian. The stock market is rebounding. If you remained invested, you see some recovery. If your stock allocation has gone below plan, it's time to bring your portfolio back to your long-term target.

Rising again

The bull market is in play. The economy is expanding. Stock prices are going up. Near the cycle's end, corporate profits are less predictable, volatility heightens, with fewer market highs. Investors grow confident, even greedy. Many forget their target mix of stocks, bonds, and cash and their portfolio drifts too heavily into stocks.

What to consider: Asset allocation cannot guarantee a profit or avoid a loss, but your target asset mix can hold greed at bay and prepare you for the next downturn. Rebalancing your portfolio now could include selling stocks and buying bonds.

The cycle of your financial life

Knowing where you are in economic and market cycles may help you improve your portfolio. You also need to know where you are in your financial life cycle—and how much risk you can take. That means ensuring that your investment mix is right for your goals.

Saving years

If you are in your 20s or 30s, a heavy allocation to stocks is appropriate. Your balance will drop during downturns, but if you stay with your plan you can be buying stocks when they are on sale, and your portfolio should rise during the bull phase.

Spending years

Perhaps you are at or near retirement. You have ridden the current bull market well and have enough saved. But your asset mix leans to stocks. As you will be living off savings, you may be more sensitive to losses. Consider meeting with an advisor, dialing back stocks, and building a more resilient portfolio.

Managing your emotions with a plan

Ask any successful investor their secret. The most common response is to make an investment plan—and stick to it. A strong plan includes a mix of stocks, bonds, and cash that aligns with your goals, time horizon, and your ability to manage risk.

Over time, discipline helps successful investors buy low, sell high, and build wealth. Stay in touch with your emotions and what's driving them—but don't let them get the better of you as an investor!

Getting started or refining your plan? Start with your goals. Try our online tools in the [Planning & Guidance Center](#). Or for professional help, consider an advisor.

This information is intended to be educational and is not tailored to the investment needs of any specific investor.

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Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk.

Past performance is no guarantee of future results.

Keep in mind that investing involves risk. The value of your investment will fluctuate over time, and you may gain or lose money.

Stock markets are volatile and can fluctuate significantly in response to company, industry, political, regulatory, market, or economic developments. Investing in stock involves risks, including the loss of principal.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities). Fixed income securities also carry inflation risk, liquidity risk, call risk and credit and default risks for both issuers and counterparties. Lower-quality fixed income securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Foreign investments involve greater risks than U.S. investments, and can decline significantly in response to adverse issuer, political, regulatory, market, and economic risks. Any fixed-income security sold or redeemed prior to maturity may be subject to loss.

Diversification and asset allocation do not ensure a profit or guarantee against loss.

Standard & Poor's 500 (S&P 500®) index is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent US equity performance.