https://www.unionleader.com/news/business/money_sense/money-ense-how-to-approach-your-portfolio-during-a-downturn/article_1fded98a-2de0-5bcc-b808-f977fe126cef.html

'Money $ense':How to approach your portfolio during a downturn

By Marc A. Hebert
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SPARKED BY fears of the spread of COVID-19 and a possible recession, the S&P 500 Index, which is broad measure of large U.S. stocks, is down approximately 25% year to date.

Many retirees or soon-to-be retirees are understandably nervous about the sudden drop in the value of their investments. In times like these, you may be wondering what the best way is to approach your portfolio. Should you sell and try to get back in at a later date? Should you ride out the downturn? How does your asset allocation factor into your decision? Let’s review how you should approach these questions.

The first option that could come to mind amid a selloff is to sell now and cut your losses before the market drops further and then buy back in at a later time when the medical and economic situation seems to be stabilizing. One issue with this approach is that you essentially have two market timing decisions to make: when to sell and when to buy back in. Determining when the market has reached its bottom is a very difficult if not impossible decision to make.

A great example of this was in 2010 when numerous market pundits remarked that we had not yet emerged from the recession, keeping many investors who had already sold on the stock market sidelines. History eventually made it clear that the market had already bottomed on March 9, 2009, causing investors who had not yet bought back in to miss out on some large gains.

Another strategy to manage your portfolio could be to take no action and ride out the downturn. The thinking here is that you remain 100% invested in the market and eliminate the need to make any timing decisions. By not pulling any of your money out of the market, you avoid the risk of missing out on a potential upturn or positive change in market sentiment. However, this strategy could be difficult to commit to emotionally and mentally, as you are still left with the fear of a further market decline and the possible regret of not taking advantage of low stock prices.

This brings us to the third potential strategy: rebalancing your portfolio according to your asset allocation, which is your predetermined mix of stocks and bonds. This approach could provide you with an objective method to sell certain investments that have declined relatively less in value and buy others that have declined more in value, thus correcting any imbalances in the asset class weightings in your portfolio.

For example, if you had previously decided that an allocation of 60% stocks and 40% bonds was appropriate, you could sell whichever asset class you own too much of and use these proceeds to buy the asset class that you need more of. By doing this, you return your investment mix to an allocation in line with your risk tolerance, which is the degree of risk that you are able to endure on your investments. Keep in mind that this strategy presumes that you already had an appropriate asset allocation in place for your situation before the recent market downturn.

Determining how to approach your portfolio during a market downturn is a difficult process with many complex factors. We have not even mentioned variables such as your investment time horizon, tax situation and retirement income sources; these details can have significant implications. As such, it is best to consult a certified financial planner to discuss your individual situation and how to best manage your portfolio.

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