

Brad Brain: Invest as if...

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Smart Money



Brad Brain: "A lot of people fear bear markets, but there is nothing inherently evil about things coming down in price. In fact, bear markets can be a phenomenal opportunity to acquire more shares in great investments at cheap prices."

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I have had a few people ask me how we have made out through this year's market turbulence. There has certainly been a lot of volatility, and I suppose it would be normal to think that this would have some kind of impact on our investment portfolios.

But really it has not been that bad. I don't think we had anybody caught in a real tight spot.

This isn't because I saw this bear market coming. Rather, it's because we always invest as if a bear market is coming. Because, sooner or later, one will be.

We get bear markets all the time. Historically we see them every four or five years, as a matter of fact. We rarely get an advance warning of when they will arrive, what will set them off, how deep they will go, or how long they will last. But we certainly do know that a bear market could always be lurking just around the corner, and we act accordingly.

Granted, the bear market of 2020 was an unusual one. But even unusual events are not that unusual. We even have names for this kind of thing. We call them black swans.

A black swan event is something that seems so preposterous that surely it must be impossible. The term comes from hundreds of years ago, when the Europeans were under the impression that all swans had white feathers.

At the time, in that place, everyone knew that all swans had a beautiful plumage of white feathers. All their knowledge, all their experience pointed to this. Swans have white feathers, end of story.

That was all the European people had ever seen.

Until they sailed to Australia and discovered a breed of swans with black feathers. What was previously considered preposterous turned out to be just something that had not happened to them yet.

Recently we saw the anniversary of Black Monday. In 1987 the benchmark index in the United States dropped more than 20% in one day. Think about that. Imagine you went to bed on Sunday with \$500,000 in savings and woke up on Tuesday to find \$100,000 gone.

It was unprecedented. It was inconceivable. It was a black swan. And it happened.

A lot of people fear bear markets, but there is nothing inherently evil about things coming down in price. In fact, bear markets can be a phenomenal opportunity to acquire more shares in great investments at cheap prices.

The problem – and potentially it can be a very big problem – is when there is a mismatch between the types of investments that people own and what they are looking to accomplish. In other words, owning long-term investments with a short-term mindset is playing with fire. Sooner or later, someone is going to get burned.

When Black Monday happened, the people that had a long enough time frame to wait it out until the recovery were probably fine. In fact, despite Black Monday, the American markets actually finished 1987 in positive territory. But anyone who held long-term investments with a short-term mindset might not have been able to stick around long enough for the recovery.

It's important to invest in a manner that is consistent with your objectives. If you have a short-term horizon then invest as if a bear market is looming around the corner. Because, sooner or later, one will be.

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