STAYING DISCIPLINED — THE IMPACT OF BEING OUT OF THE MARKET

2020. What a year. Most of us would like to leave that one on the curb for Monday morning trash pickup. From an investment perspective, however, many experienced double-digit positive returns. There is one catch, though. You had to stay disciplined, which is easier said than done.

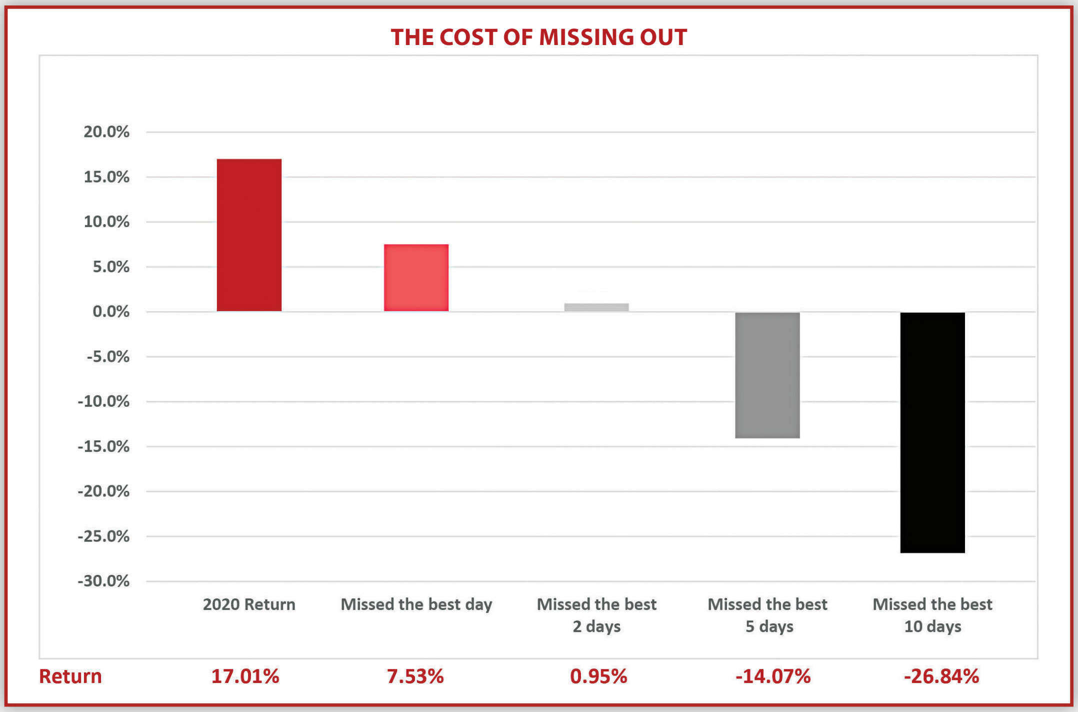
Watching your investment accounts begin to fall in February likely caused you to feel some angst. By March, when the reality of the global pandemic set in, the fall turned into a free fall — and the angst turned into outright panic.

When emotions creep into one's investment approach, it can cause individuals to make irrational decisions. This emotion can swing both ways — euphoria, leading some to buy into soaring companies and industries — or in this case, fear, leading some to "cut their losses" and sell out of the market at the wrong time.

When investing, you should maintain a well-diversified portfolio in line with your risk tolerance and expected timeframe for when those funds will be needed to support your lifestyle. This shelter should be built before the storm, as we never know when the equity markets will experience bad weather.

2020 gave us a stark reminder that we cannot predict what the stock market will do in the short term. The exhibit to the right represents an equity portfolio consisting of 40% large US stocks, 35% small US stocks, and 25% international stocks. By simply staying invested, you captured a 17% return for the notorious year named 2020. If you missed the best day – that return was slashed by almost 10%!

Some might look at that and say, "Nobody would be that unlucky." However, keep in mind, that the best days tend to come on the heels of some of the worst. Another, perhaps more approachable example, would be an investor running for the hills on March 16th and waiting until the markets started to show signs of a rebound before coming back.



Diversified Equity Portfolio: 40% S&P 500, 35% Russell 2000, 25% MSCI ACWI ex USA. Source: Morningstar Direct

In just one day, on March 16th, the markets posted an 11% decline. If you sold on the 16th and reentered the market a month later, your 2020 return would have been just over 2% for the entire year, using the same portfolio makeup outlined in the exhibit.

This article's takeaway is to act more like the pivot of a pendulum and not like the suspended ball swinging back and forth. Stay disciplined. Focus on what you can control. And do not make knee-jerk reactions.

This **Industry Insight** was written by Matthew D. Kelly, CFP®.

As an advisor with Allegheny Financial Group, Matt helps guide individuals and families toward achieving their distinctive financial goals. Matt and his wife, Mia, live in Mt. Lebanon with their two kids and are enjoying family life in such a friendly community.

For a better understanding of how Matt could work with you and your family, please call him at 412.536.8076 or email at mkelly@alleghenyfinancial.com.