



## Dive into the Dip

### How Successful Investors Navigate Downturns



Joan Loken

Director  
Rocky Mountain Chapter

joanhps@aol.com

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**Are you pulling your hair trying to determine which path to take in a market downturn?**



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**Which path to take?**



**By talking thru some approaches,  
your direction becomes clearer**

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## Agenda



- **Market Downturns**
  - Being Prepared
- **Four Possible Approaches**
  - 1) Sell Everything
  - 2) Rebalance Portfolio
  - 3) Dollar Cost Averaging
  - 4) Stay With The Plan
- **Don't Let Emotions Derail You**

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# A Look at History of Downturns

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## Where are we now?



- In the middle of Trade War Chaos
  - Fear: inflation, possibility of recession
  - How long will it last?
  - How deep is the downturn?
- It's not classified until its over
  - Hope for the Best
  - Prepare for the Worst
- Let's look at history of Downturns

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## Worse Case Examples of Market Downturns




- **The Great Depression**
- **(1929 – 1954)**
  - Stock market crash of 1929
  - Led to an 85% decline in value
  - Recovery to pre-crash levels took 25 years
  - **Longest recovery period in history**

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## Best Case Examples of Market Downturns




- **COVID-19 Pandemic**
- **(2020)**
  - S&P 500 fell 34%
  - Rapidly recovered within eight months
  - One of the fastest recoveries despite severity of crash

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## Bull and Bear Markets – 2020 COVID-19 Pandemic



**S&P 500 surpasses all-time high**

Ups & Downs occur in each stage of market

Feb. 19, 2020  
11-year Bull Market ends, no new highs - Bear Market begins

March 23, 2020  
Bear Market bottoms -34%

August 18, 2020  
S&P 500 closes above Feb. 19, 2020 Bull Market declared

Market Stays above the drop

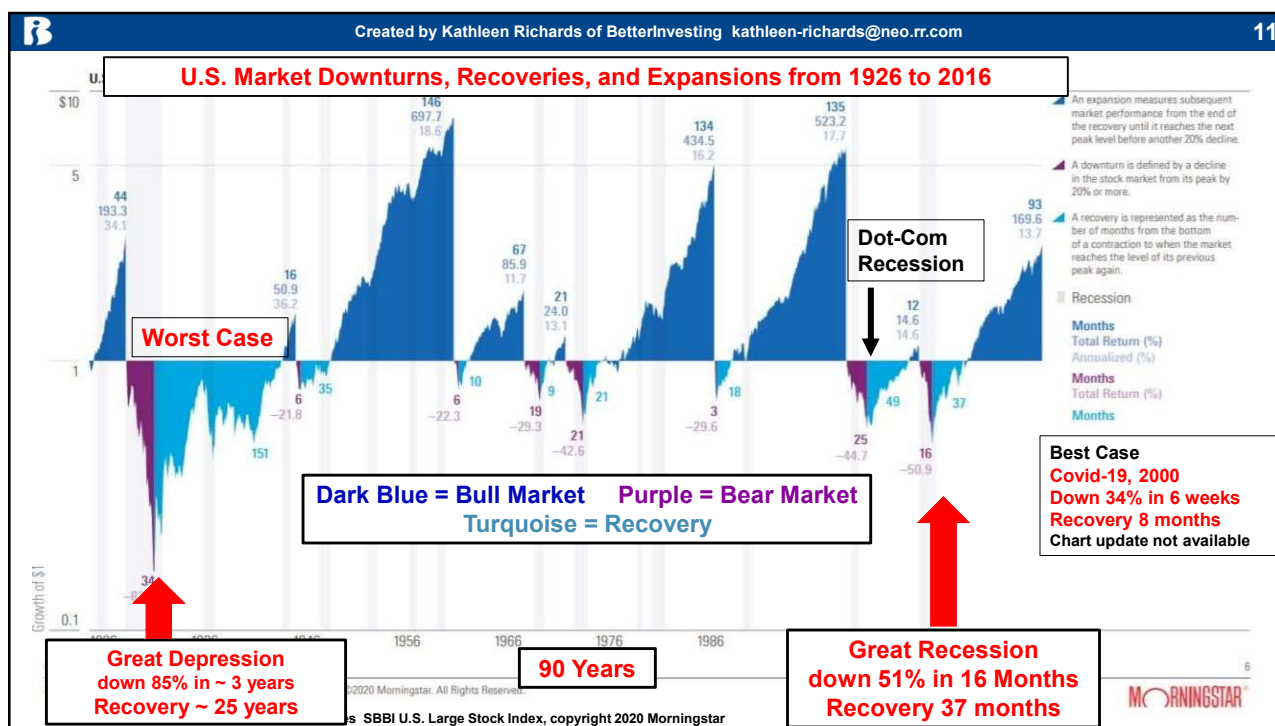
Downturn declared after event is over, and market highs and lows known

Notice: the Market can change very quickly without any warning

The next chart will show this pattern over 90 years of downturns

SOURCE: FactSet. Data as of 9:50 a.m. on 8/18/2020.

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## Types of Market Downturns

Type	Market Correction Not shown on previous slide	Recession	Depression
Severity	10-20% Correction Occurs ~ every 2 yrs.	Significant Decline Lasting months	Prolonged & Severe downturn lasting year or more
Duration	Days to few Months	Usually a few quarters	Can persist several years

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## Types of Market Downturns


Type	Market Correction Not shown on previous slide	Recession	Depression
Implications	Healthy adjustment	Potential systemic risks	Severe: widespread unemployment and business decline
Impact on Markets	Short-term price adjustments Potential Buying Opportunity	Prolong Market Instability, Make cautious financial decisions	Deep market collapse Recovery may take decades

**Markets Historically Rebounded from Downturns**

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## Be Prepared: Have an Emergency Fund



- **Working Folks:**
  - Save 3-6 months of living expenses
- **Retirees may need larger reserves:**
  - 2 to 4 years of living expenses

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## Be Prepared: Have an Emergency Fund



- Cut unnecessary expenses
- Improve cash flow management
- Reevaluate on a regular schedule

**Helps to weather economic downturns while maintaining financial security**

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## Four Possible Approaches

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## Four Possible Approaches

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**1. Sell Everything**
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**2. Rebalance Portfolio**
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**3. Dollar Cost Averaging**
- 
**4. Stay on the Plan**

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## #1. Sell Everything




- **Sell, a first reaction in a Downturn**
- **Loss of Opportunity**
- **Investors who exit the market experience significant losses**

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## #1. Sell Everything

- They miss the impact of the 10 best days
- The 10 best days occur early in the bear market recovery period
- Studies shows loss of 50% of potential value




Covid 2019 Recovery

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## #1. Sell Everything




- **Challenge:**
  - Difficulty of timing to re-enter the market at the right time
- **You Don't Want to Miss this!**
  - **S&P 500 delivered an average 38% return within 12 months following the bottom within the recovery period**

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## #2. Rebalance Portfolio




ASSETS ALLOCATION

- Requires cautious strategic approach
- Research
  - Large-caps, Dividend stocks
  - Fixed income

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## Rebalance Portfolio



ASSETS ALLOCATION

- Focus on defensive stocks with low debt
- These stocks are counter cyclical:
  - Consumer Staples
  - Healthcare
  - Utilities
  - Discount retailers

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## Rebalance Portfolio



ASSETS ALLOCATION

- **Want to Sell Strategically**
- **If you feel you must sell, remember:**
  - **Selling at a loss of 30% requires 47% return to break even**

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## Rebalance Portfolio




ASSETS ALLOCATION

- **Selling at a 50% loss requires 100% return to break even**
- **Be strategic in selling, new purchases may not meet expectations**
- **If your Portfolio is already Diversified, you're prepared**

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## #3. Dollar Cost Averaging (DCA)




- An approach to purchasing an investment in which the buyer spreads out their purchases so that the total price paid is less affected by market timing

Source: Investopedia

- **In market downturns, it reduces losses by averaging down the purchase price**
- Example: IRA Contributions

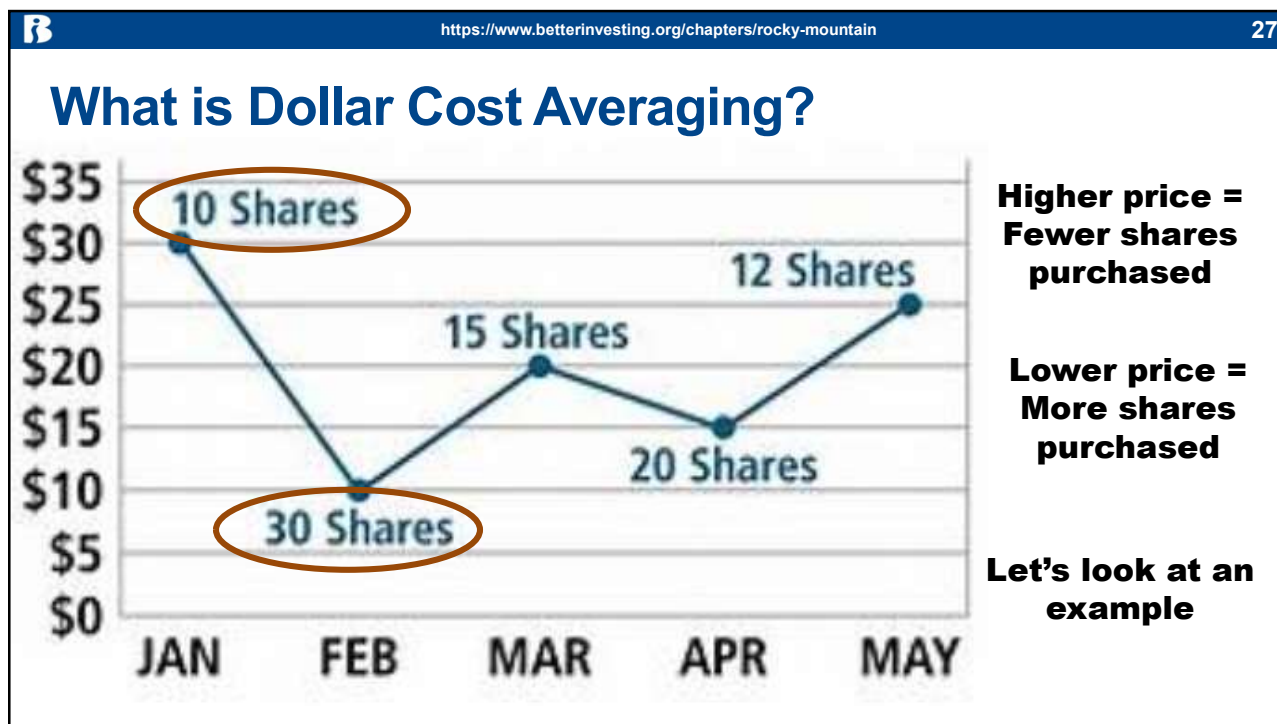
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## What is Dollar Cost Averaging?

- Investing amounts regularly means less stress for investors – even in turbulent markets
- Invest regularly whether the price is high or low, you contribute the same amount

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### Investor commits \$100 monthly

Month	Investment	Price per Share	# of Shares Purchased
# 1	\$ 100	\$ 5	20
# 2	\$ 100	\$ 5	20
# 3	\$ 100	\$ 2	50
# 4	\$ 100	\$ 4	25
# 5	\$ 100	\$ 5	20
<b>Total</b>	<b>\$ 500</b>	<b>\$ 3.70 / avg. price</b>	<b>135</b>

**Assumptions**  
 Total Shares = 135 shares  
 Prices returns to \$5 per share by the 5<sup>th</sup> month

**Results**  
 $\$5 \times 135 \text{ shares} = \$675$   
 That is a 35% return on investment

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## Dollar Cost Averaging Benefits

- **Reduces the market timing risk by managing market volatility over time.**
- **Lowers average purchase cost.**

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## #4. Stay with the Plan




**Offers several key benefits, supported by historical data and expert insights**


### 1-A. Long-Term Growth Potential

- **Historically, markets tend to rebound after downturns, resulting in significant gains for those who stayed invested**

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## Stay with the Plan




- **1-B. Long-Term Growth Potential (Example)**
  - During the 2020 COVID crash portfolios by fell by 34%
  - Recovered over 16% by the end of the year
  - And nearly 70% higher from its low point

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## Stay with the Plan



### 2. Avoid Emotional Mistakes

- Moving to cash during declines, often leads to poor long-term performance
- **Sticking with a disciplined buy-and-hold strategy has proven to provide better performance.**

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## Stay with the Plan



- 3. Stay on Track**
  - More likely to achieve long-term goals despite temporary portfolio declines
- 4. Take Advantage of Opportunities**
  - “Buy the Dip” during recessions can enhance portfolio for future gains

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## Stay with the Plan




**Sticking to your investment plan during a downturn helps:**

- Mitigate risks associated with emotional decision-making
- Leverages market recovery potential
- Ensures alignment with long-term financial goals


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# Avoid Emotional Decisions

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## Avoid Emotional Decisions




- Reactions to market downturns can lead to poor decisions
- Experts recommend sticking to a long-term investment plan aligned with your risk tolerance and goals

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## Avoid Emotional Decisions



- In summary, while it's tempting to wait for clear signs of recovery, history suggests
  - Staying invested or
  - Engaging in “Dollar Cost Averaging” or “Buying on the Dip”
- These are more effective than trying to time the market

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**We learned from successful investors in a downturn to make your path forward prosperous by:**

**Stay with the Plan and Look for Opportunities**

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## Educational Opportunity

### • **BINC: BI National Convention – Online**

- Two Saturday's: **June 7 & June 14**
- Cost: \$175, includes both days
- Each session has several tracks
- **Features BI's top volunteer instructors**
- Watch announcements for details



### • **“Why Timing the Market Doesn't Work”**

- Kathleen Richards, NE Ohio Chapter

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## Thank You

**Ralph,  
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Kathleen &  
Carmon**  
For your editorial  
assistance

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**Historical Examples of Prolonged Market Recoveries**

1. **The Great Depression (1929–1954)**
  - The stock market crash of 1929 led to an 86% decline in value. Recovery to pre-crash levels took 25 years, marking one of the longest recovery periods in history
2. **Dot-Com Bubble (2000–2006)**
  - The S&P 500 fell significantly during the burst of the dot-com bubble. It took nearly six years for the index to return to its previous highs
3. **Global Financial Crisis (2008–2013)**
  - The 2008 financial crisis caused a sharp drop in global markets. The S&P 500 required approximately six years to recover fully
4. **COVID-19 Pandemic (2020)**
  - During early 2020, the S&P 500 fell by 34% but recovered rapidly within eight months, making it one of the fastest recoveries despite the severity of the crash
5. **Russia-Ukraine Conflict and Inflation (2021–2023)**
  - The market downturn triggered by geopolitical tensions and inflation took 18 months for recovery, highlighting how external factors can prolong recovery timelines
    - **Severity Matters:** Larger crashes tend to take longer to recover because markets need to grow by a greater percentage than the initial decline. For example, a 50% drop requires a 100% gain to return to previous levels

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