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MARKET MATTERS: Are you ready for fall?

Joseph Matthews

It's hard to believe fall is already upon us. It seems like just yesterday that baseball teams were in spring training and flowers were beginning to bloom. Yet, here we are with fall at the doorstep — and winter not very far away.

Changing seasons can change temperament. Research has shown that temperature and amount of sunlight can significantly influence how we feel. With more sunlight, we tend to be more energetic and tend toward having a more positive attitude. With less sunlight, we may find ourselves more sedentary and less exuberant. As humans, factors outside of our control can influence our day-to-day actions and how we feel about things.

Just like the weather, financial markets can have a way of sneaking up on us.

Because of this, we can find ourselves in a position we didn't expect more often than we appreciate. The length of the current bull market — all 2,700-plus days of it — certainly has impacted the investment decisions of many investors.

While it may be frustrating for some, it's been a good ride and certainly is a long way from where we were just eight years ago. For many, the experience of the financial volatility in late 2007 and 2008 has led to more cautious behavior that, in some cases, may have kept them from fully benefitting from the current bull market. Countless investors continue to remain in money market accounts and other so-called "safe" types of investments, waiting for the right time to commit to their long term plan.

So what now?

It's an easy argument to say we're late in the current business cycle, as this expansion has been one of the longest since World War II. This has caused some concern among individual investors and has, in some cases, translated to negative or perhaps fearful sentiment. In addition, the muted level of growth in the U.S. economy overall coupled with sluggish wage increases during the post-2008 period has been frustrating to investors and workers alike. Growth in U.S. Gross Domestic Product (GDP) — the sum of goods and services produced in our country — has been anemic relative to other cycles.

Nevertheless, this differentiating factor may have a positive side. I believe that this recovery's sub-par growth has resulted in fewer financial excesses, which could lead to a shallower than normal contraction when this business cycle does in fact end – as all cycles eventually do.

As investors, it's natural to be anxious about putting hard earned money into risk-assets like stocks and corporate bonds, as they are more likely to be impacted by the short-term whims of many things out of our control — such as other investors' behavior, media hype, and Federal Reserve actions, for example.

In addition, every year, there seems to be at least one-time period that causes all of us to second guess our long-term investment decisions. This year, it happened to come early as we experienced the worst start to a year for the stock market in decades. In fact, when we go as far back as 1990, history shows us that the average intra-year pullback for the S&P 500 has been over 14 percent!

Each of these pullbacks happened for a different reason — many of which were difficult if not impossible to predict — and most are now long forgotten by the average investor. Unfortunately, many investors' behavior during these stormy times is guided by emotions, which ultimately can interfere with what they are trying to accomplish long term.

It's tough to do, but keeping emotion out of investment decisions is critical.

Just like we prepare for the change of seasons here in the Northeast, your portfolio should be structured to weather the difficult times it will undoubtedly experience. As a first step, you might consider creating an emergency fund equal to roughly 6 to 12 months of your daily expenses. Next, you should ensure your portfolio is aligned with your individual risk tolerance and long-term goals. Just doing these two things can go a long way toward navigating through those turbulent times all of us will experience.

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