APRIL 2020 CLIENT QUESTION OF THE MONTH: IS THIS A GOOD TIME TO INVEST NEW MONEY?

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In 2020, the S&P 500 entered its first bear market since the Global Financial Crisis when the index fell by -33.9% from February 19th through March 23rd. Was March 23rd the bottom for this bear market or will the decline go further? Is this a good time to invest new money or should I wait for another potential decline and new market bottom?

We've received several questions from clients about the best way to invest new cash. These clients have extra money for a variety of different reasons, and they are looking to take advantage of the market decline. However, given that the market has also rallied by +30% since March 23rd, they are wondering if they should wait for another decline before investing. This is classic market timing paralysis, "I don't want to invest now because the market is going down" followed by "I don't want to invest now because the market is going up". We have written several times about why **market timing does not work**. To be clear, we fully understand the investor's dilemma, no one wants to invest new money only to watch the market decline shortly after. Our goal with this Client Question of the Month piece is to provide data that sheds light on investing new money and discuss our strategy for the optimal way to execute.

Since the investor's worst nightmare is to invest new money right before a significant market decline, we decided to examine both the short and long-term impacts of this scenario. The following chart displays the performance of the S&P 500 during the last ten bear markets (we used the classic bear market definition of a peak-to-trough price decline of greater than -20%). In our two scenarios, the investor puts money to work at a "terrible" time, either 30- or 90-days before the eventual bear market bottom. Note the initial return after 30- and 90-days was -11.9% and -18.6% respectively. In the short-term, the investor probably watched in horror as the value of their purchase declined. However, short-term pain eventually turned to long-term gains as the returns 12- and 24-months later were very strong.

S&P 500 Bear Markets				Invest 1-Month Before Market Bottom			Invest 3-Months Before Market Bottom		
Bear Market	Market Peak	Market Bottom	Price Decline	1-Month Total Return	12-Month Total Return	24-Month Total Return	3-Month Total Return	12-Month Total Return	24-Month Total Return
Global Financial Crisis	October 2007	March 2009	-56.8%	-21.8%	25.6%	58.5%	-23.3%	26.4%	45.1%
Tech Bubble	March 2000	October 2002	-49.1%	-13.8%	15.4%	28.1%	-15.9%	9.6%	24.3%
1987 Crash	August 1987	October 1987	-29.7%	-24.6%	-11.4%	18.4%	-22.7%	-10.5%	16.9%
Fed Tightening	November 1980	August 1982	-27.1%	-5.9%	58.9%	50.7%	-11.8%	47.4%	48.0%
Stagflation	January 1973	October 1974	-48.2%	-11.3%	27.8%	60.6%	-24.6%	18.3%	35.8%
Tech Crash of 1970	November 1968	May 1970	-36.1%	-16.0%	30.2%	38.4%	-21.7%	12.6%	27.2%
Fed Tightening	February 1966	October 1966	-22.2%	-3.3%	27.9%	41.6%	-15.7%	8.3%	24.2%
Cold War Tension	December 1961	June 1962	-28.0%	-12.0%	21.8%	44.6%	-24.8%	-1.6%	20.9%
Cold War Tension	August 1956	October 1957	-21.6%	-9.8%	17.3%	35.8%	-19.0%	-0.1%	32.0%
Post WWII Crash	May 1946	March 1948	-28.1%	-0.1%	11.9%	46.2%	-6.9%	5.9%	27.4%
Average			**-34.7%**	**-11.9%**	**22.5%**	**42.3%**	**-18.6%**	**11.6%**	**30.2%**

This study illustrates that time invested in the market matters more than investing at the perfect time. In investing, perfect can be the enemy of good. While it would be nice to make the perfect investment at THE market bottom, we advise not letting that temptation stop you from making a good investment today. If you believe the current environment is at least a good time to invest, then we suggest putting a portion of your capital to work. No one knows when the ultimate market bottom will occur since it can only be identified in hindsight (although this will not stop the pundits from guessing). However, we do know the **benefit that an investor receives from a diversified portfolio and a long time horizon**. Since the **stock market increases over long periods**, one of the biggest advantages an investor has is time. We recommended utilizing that advantage rather than staying out of the market and waiting for the perfect buying opportunity that may never arrive.

At Winthrop Wealth, we work very closely with our clients to execute a transparent plan to invest new money. In our opinion, the best way put new money to work is to agree to an investing schedule with some flexibility that makes the client feel comfortable and confident in the process. For example, we may agree to a schedule to invest a certain percentage of the cash each month, with the flexibility to move the investment date up or back a few days and/or vary the specific securities to take advantage of opportunities. Rather than attempt to wait for the perfect time to buy and firing all our "bullets", our approach allows us to make a series of buys and to save some dry powder as new opportunities arise. This increases the chances that some of our buys may be at good to great prices. In our opinion, our methodical approach is far more effective than trying to find the perfect time to invest everything at once.

We apply a total net worth approach to both comprehensive financial planning and investment management. Financial planning drives the investment strategy and provides a roadmap to each client's unique goals and objectives. The comprehensive financial plan defines cash flow needs, is stress tested for various market environments, optimizes account structures, considers tax minimization strategies, and continuously evaluates financial risks as circumstances and/or goals change. The investment management process is designed to provide well-diversified portfolios constructed with a methodology based on prudent risk management, asset allocation, and security selection.

As always, please contact us if you have any questions or updates to your personal or financial circumstances.

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All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.