



What Experienced Investors Do When the Market Drops [Ep. 6]

Transcript

Note: The transcript of this podcast was generated using an automated transcription tool for informational purposes only, and may not reflect the exact wording or content discussed in the episode.

You know the famous statement, right? Isn't this time different? People always think it's different because the pain of losing money is way more significant than the pleasure of having great returns. So what do you tell clients during this volatility who may be panicking and uncertain they don't know what to do? What are you telling them? If you're down but you're invested intelligently, I would argue you need to be patient. Let's make your money back and then let's get more conservative.

(...)

(Music)

(...)

Today's topic, don't fear the dip, taking advantage of market volatility. You ready, Robert? I'm ready, Glen. You know, market volatility, it's not new. It's been around since the beginning of the stock market, beginning of ages, and you're going to have constant volatility in the market. So today I'm excited to have this conversation, but if you wouldn't mind, start us out with why shouldn't people worry when the market gets volatile?

(...)

Volatile markets are normal, right? You're always going to have ups and downs. And it really comes to how much rate of return you're expecting as an investor. If you want something that's virtually no risk, you need to really consider what 10-year treasuries are paying. 10-year treasuries are government bonds for 10 years. Historically, they've paid about 4.5%, which actually that's close to what they're paying today. But they can range in here from 1% to north of 10%, the 10-year bonds, government bonds. That's viewed as the risk-free rate of return. And again, historically, 4.5%. Currently, we're at 4.5%. If you want to make anything greater than that, 6%, 7%, 8%, 10+, plus, you have to take risk. There's no free lunch.(...) And that's when the stock market can come and play, right? Historically, stocks, on the other hand, instead of making 4.5%, you can expect to make 10%, 10+, assuming you're fully invested in the stock market. But with that comes the volatility. With that comes 2 out of 10 years, you're going to lose money. That's the price of admission of making 2 to 3x that rate of return. And you have to keep in mind, too,(...) while the stock market might average 10%, that's the average. If you look at the last two years, both those years, the market was up over 20% on average. So to bring that back down, that average to historical standards, you're going to have to have some years in there of negativity and flattish to bring the average back down. It's not going to average 20 plus like it did the last two years. Okay. So what would you say to a client or potential client that wants to make a 10% average rate of return, but no risk at all? Yeah, that doesn't exist, right?(...) You have to, I think it's more important to minimize the losses on a down year than it is necessarily to make every penny on the upside. But if you have two options with your investments, imagine if you're a listener today, imagine you put all of your money in one of two buckets, bucket A or bucket B. Bucket A is an investment with a rate of return of 7% per year, compounded every single year, 7% a year for 20 consecutive years. That's option A, you can have all your money in. Or investment B, investment B is going to give you a rate of return of 21 up on the first year, lose seven on the second, 21 up, seven down, 21 up, seven down for 20 consecutive years. Following me? Following you. Bucket A, 777, bucket B, 21 up, seven down, 20 up, seven down. When we do seminars and we've done events in the past and we

would ask the attendees,(...) which one do you think will give you the greatest rate of return? As you know, typically the room split in half.(...) And oftentimes what people overlook is the impact of the negative years. While they both average the same, a portfolio does 777, it does average seven, and the one that goes up 21 down seven up 21 down seven averages seven, right? Because 21 minus seven is 14, 14 divided by two seven. They average the same both, but there's still a major difference. And that's the compound rate of return. The one that's 777, not only does it average seven, but it compounds at seven. The one that's 21 up seven down, 20 up seven down, it averages seven, but it compounds at 6.08. So for every million dollars you have, you're going to make about 10 grand less on this one that on a surface might look better because wow, I make 21% on the upside, but those negative years are huge. They're huge.(...) So regarding market volatility,

(...)

how often is the market volatile? And I also want to dive into a few terms that we have in our industry where you talk about volatility. We talk about the standard corrections, bear markets, recessions.(...) What do all of those mean? And what would you tell somebody who's nervous about any type of market volatility in those different scenarios?(...) Market volatility, again, is completely normal. It's like if I was going to go outside and if I knew I had a chance of getting a cold, it's not going to prevent me from living my life and being outside. It's the same with rate of returns. If volatility is holding you back from greater returns, that's something you really want to look into. In terms of historic volatility, corrections, which is just a fancy way of saying 10%(...) pullback, that happens about every 16 months and it takes about three, four months to recover, completely normal. A little bit more of a severe drop, which we just experienced, of 20% or greater, a bear market. That happens about every five and a half years. And historically, it takes about 10 months to recover, sometimes quicker. Look at COVID, right? We recovered within two, three months after that. Yeah. So over the years, I've heard you say that market volatility creates opportunity and it's not a catastrophe. What do you mean by that?

(...)

Well, if the market just went straight up, candidly, we might not have a job. People could just put their investments in an ETF fund and let it ride. The volatility creates opportunities

because while the whole market may pull down, there's pockets of it that are always going to be affected worse than others. And you can take advantage of that. An example would be, look at Deckers, the shoe manufacturing company. They make UGGs, they make Hoka.

(...)

They're very unique. They've continued over the last four or five years to take market share from Nike, from Under Armour.(...) Due to good leadership that Deckers has, quite frankly, they've moved a lot of manufacturing out of China and moved it to Indonesia,

(...)

Vietnam, Cambodia, to avoid potential tariffs. They saw coming down the pike.

(...)

And this is a stock that's up 4x over the last four or five years. So it's up over 400%. It's been on a tear. Now, this year, Deckers is down 45%. Why? Because of the tariffs.(...) If you believe like us that these tariffs, to a large extent, maybe not China so much, but the rest of Asia, Cambodia, Vietnam,(...) Indonesia is going to have tariffs dramatically reduced. At some point,(...) this stock's going to come roaring back. They've reduced their manufacturing from the vast majority of shoes being manufactured in China down to 40%. So I would view this is a massive opportunity. This is a stock I loved before.(...) And if you're like me, if you loved this stock before, why are you not going to love it now when it's 45% cheaper? Yeah, but you know the famous statement, right? Isn't this time different? Through all the years, it's like every time there's volatility, this time is different. So isn't this time with the tariffs and everything going on? Isn't it different? People love to say that, right?(...) This time is different. In the 20 years, I've been an advisor, I've heard this countless times. During 2008, I had some clients say, "This is different. This is a housing bubble. The market's never going to return." During COVID, people said this is different, even though I tried to give them examples of the last time we had a pandemic in 1917 and how we had a war in the 20s. People always think it's different because the pain of losing

money is way more significant than the pleasure of having great returns, right? Now, history doesn't repeat itself, but it rhymes.(...) And what you want to do as an investor is take advantage of these dips, realize the market will recover. It's not if, but it's when,(...) and be positioned. So when the market recovers, you're not even, when the market recovers even, you're up because you took advantage of pockets of the market that were dramatically hit harder. So what do you tell clients during this volatility who may be panicking and uncertain, they don't know what to do? What are you telling them? So if you're down in your portfolio and you're feeling uneasy about it, I would first of all look at your account and realize, are you down because you're diversified and it's just a bad market? Are you down because you invested in some things maybe you should not have, right? If you're down, but you're invested intelligently, I would argue you need to be patient at that point. Let the market recover. It might be three months, might be six months, like I talked about earlier, even a 10%(...) drop typically takes three to four months.(...) 20% drop takes 10 months, so I'd wait to recover any losses. And then I would consider making the account more conservative.(...) I can tell you though, doing this for a living,(...) that oftentimes people will say, "Man, I'm not comfortable with risk right now" because they lost the chunk of money. And I tell them, "Okay, let's make your money back and then let's get more conservative." But I even tell them what they're going to think, which is once we get their money back, oftentimes people, their appetite for risk has returned. So even though we just made them the money back, they don't want to get more conservative when that's really the right time, right? You want to become more conservative before you lose a chunk of money. So you want to really dissect how you invest your portfolio before the bad times come. It seems like common sense.(...) I would think so. Yeah. I would think so, but common sense is uncommon, right? That's right. Now, what is one of your favorite quotes by Warren Buffett that would be fit for market volatility in times like we see today? Well, there's a few quotes that I love from the best investor ever, Warren Buffett.(...) One would be probably the easiest to understand and most transparent, which is "to be greedy when others are fearful and fearful when others are greedy". That's easier said than done, right? Because your gut's going to fight you against that, but that's so important and that's an easy concept. Again, assuming you're invested intelligently, when the markets come down, you really want to take advantage of that.(...) Another quote that I like from him is "in a short term, the stock market is a voting machine and in the long term it's a weighing machine". And what it means by that, right, is in a short term it's a popularity contest, if you will, but in the long term, the quality stocks are going to rise to the top. So you don't want to be in some type of fad because you might make money in a short term, but that's speculating. We don't want to be speculators. We want to be investors.(...) And if you're not okay owning a stock for many, many years, I would argue you should not be in that stock. And the last quote by Warren Buffett that I really like is that in the long haul, that "the stock market is going to

move money from the impatient investor to the patient investor”, right? And that's totally true. It's when you're trying to time the market is when you give up a lot of returns. The average investor out there doesn't even have average returns. They have subpar, believe it or not.(...) You know, I think he would know too. I was reading recently because, you know, he just recently retired, as you know, and when he was born in 1930, the Great Depression, the Dow Jones was at 240 points, but then the next year fell over 75% to 40 points. That's crazy. So if any man can make a quote and knows about the stock market, I think it would be Warren Buffett. 100%. Yeah.(...) So let's see.(...) We've already experienced some volatile days this year.(...) And it's, markets come back a little bit, but we could still, the index is the markets could still see a 15, 20% drop the first half of this year. They've already been down greater than that, but they could end the first six months of this year down 15 to 20%. If we get more news, I mean, as you always say, the market can be choppy. So let's talk about that.(...) It could definitely continue to be very volatile, which I think it will be for the rest of 2025.(...) Volatility, typically the more the market drops, the harder it rebounds.(...) There's been six times in history where you've had the stock market be down 15% or greater in the first half of the year. And on average, the second half of the year, when this happens, the market's up 23%. So again, this is not a catastrophe. It's an opportunity. If you believe the market's going to rebound and you want to take advantage of that.(...) Now, people oftentimes will put, I think, too much weight on certain bad days. Because I think if you see your portfolio drop significantly in one day, people tend to absorb that loss a little bit more.(...) Lately, they've been comparing some of these drops we've had lately to 1987, Black Monday.(...) Oh, this is another Black Monday. The market's dropped 5%, 10% in one day, which by the way, back then on October 19th, it dropped over 20%. And my response, I did an interview recently talking about this, is my response is, is what did the stock market even do in 1987? Here's a year that people like to talk about, because it included the worst day in history. Markets sound 20% in one day. What did the market even do that year?(...) Market's up. So even in a year that had the worst one day ever, the market's up. So what that tells you, I think, is markets tend to recover quickly. They tend to recover hard on any given day, whether it's a significant market drop or a given month. And you want to be positioned to recover when the market recovers.(...) So you know what most people are going to say then, well, Glen, you're a wealth manager.(...) Why don't we just miss that Black Monday? Because if the year ended up anyway, then if we missed that, you're telling me I could have made more money at the end of the year if we would have just missed that one day. Yeah, I hear that all the time. Right. People trying to time the market, right? As the saying goes, you make money by time in the market, not timing the market. I remember probably I was two weeks into the business and I was reading all these charts that management would put in front of us to understand the market trends and the importance of certain things to do and not do for your clients.(...) And one at the time I thought was kind

of silly, but I've come to appreciate more and more over time, is that a chart where it discusses(...) the impact of missing the best days.(...) Right. So the thing to keep in mind, the best days, typically happen on the back of a terrible day. It's not like the market's doing amazing and boom, it pops up three, four percent. It typically happens right after the market had a bad day.

(...)

So the one chart I'll share with you, if you invested \$10,000 on December 31st, 1979, by March 31st of 2025, that 10K and the S&P 500 would have grown to over \$1.6 million. Wow. Okay. Now, if you just missed the top five days,(...) instead of having \$1.6 million, you have a hair over a million.(...) If you missed the best 10 days, you're at 700K ish, the best 30 days, you're at about a quarter million, a little over a quarter million. And lastly, if you missed the best 50 days of the stock market during that time, you have a little over 100 grand. Now you might think that's a little dramatic, how is somebody going to miss the best 50 days? Okay, I'll give you that. But I definitely think it's realistic, you could have missed the best five days per se, right? And if you did, again, instead of having to 1.6 million assets on that 10K, you'd have about a million, you're still giving up 600K just by trying to get in and out of the market. And if it's a taxable account, by the way, you're probably generating a ton more in taxes. So if there were a few takeaways or even one takeaway that you would feel like is the most important point of today's episode, and you're going to tell a client, if you remember nothing else, remember this, what do you think the key takeaways would be? I think it's two things. Embrace volatility, take advantage of it, realize this is part of the stock market, it's going to happen, don't try to avoid it.(...) Find out what your appetite for risk is and do that in the good times.(...) But then once you're invested intelligently, don't panic because your portfolio is down, ride it out.(...) And the second is be diversified. You have to find out your appetite for risk and you want to do all this planning before the volatility hits. Well, thank you, Glen. I appreciate it. I think our audience got a lot of valuable insight from today's conversation. Before we're done, though, got a question from the mailbag. And it's not about today's topic, it's just random questions. But what should someone look for when choosing an adviser? And this is from Jason out of Florida.(...) Man, there's a lot of things I'd look for. The first is I would want to work with somebody who's a CFP or their CFP is on a team. I would want to do a background check on them to make sure that they haven't been sued by clients or been doing anything inappropriate.(...) I wouldn't want to be their biggest client, but I also wouldn't want to be the smallest client. You don't want to be the guinea pig.(...) And I would want to look at performance, track record, what they've delivered, do

they do financial planning?(...) And lastly, I would say, are they fee only? Somebody that's not charging you commissions or doing proprietary products that truly is doing what's in your best interest. Okay. Well, thank you. And I want to thank our audience for the questions. Remember to keep sending your questions in at gds@gdswealth.com. I appreciate the conversation. Truly do. I think it's valuable. I hope our audience has found some value in today's Don't Fear the Dip episode. And I hope you look forward to many more episodes to come. We give you valuable insight to your financial picture. And until then, stay tuned.

Disclosure:

GDS Wealth Management (“GDS”) is an SEC Registered Investment Adviser. Registration as an investment adviser does not imply a certain level of skill or training. The information presented in this podcast is intended for general informational purposes only and does not constitute investment, legal, tax, or other professional advice. Any references to market performance, economic conditions, financial planning concepts, or historical investment returns are intended for illustrative purposes only. Any commentary related to the selection of financial advisors, fiduciary responsibility, or portfolio strategies is general in nature. Listeners should carefully consider their own financial situation, objectives, and risk tolerance before making any investment decisions or selecting a financial professional. Past performance does not guarantee future results. All investing involves risk, including the potential loss of principal. The views and opinions reflect the authors as of the publication date and are subject to change without notice. This podcast does not guarantee any specific financial outcome or result from the implementation of any strategies discussed. For more information about GDS Wealth Management, including a description of services, fees, and important disclosures, please visit <https://www.gdswealth.com>.