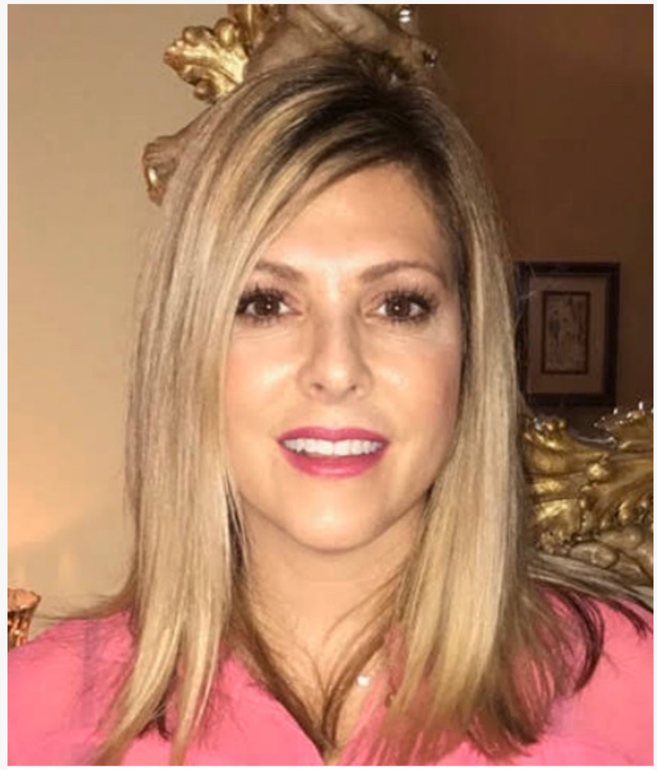
COVID Investing - Adding on The Down

Volatile market environments can create opportunities to ADD ON THE DOWN.



SILICON VALLEY, CA, USA, November 23, 2020 /EINPresswire.com/ -- One of the hallmarks of the stock market is its volatility, at times more volatile than others. Nonetheless, the markets inherent nature is to rise and fall. The current COVID environment has produced its fair share of volatility and that has created an equal amount of opportunities to ADD ON THE DOWN.

Euphoria, prosperity, wealth, success are just a few ways we can describe the feelings experienced with a market that is trending up. Contrasting, in a falling market one would expect diametric feelings; depression, poor, lack, failure. If you are new to investing or would consider yourself a novice, these are likely the experiences you have had. From these experiences many shy away from the market for the simple reason they cannot or don't want to experience the pendulum of feelings that come with market volatility. For that one reason alone, many simply throw in the towel and lose out on one of the most prosperous wealth building avenues available.

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>
> *Whitney Erin Johnson*

A look back at the COVID downturn in March 2020 reveals a fantastic example of an opportunity to facilitate an expedited wealth building avenue. A 12-year bull run came to a sudden halt in March 2020 with the market falling over 30%. Despite the panic on Wall Street, this created a great entry point for adding to existing positions or establishing new ones in companies on a 'wish list'. The entry point into an investment is important and more so if you are a short-term investor. Long term investors are afforded a more 'loose' expectation of an entry point in that over a 30 or 40 year timeframe the odds of a particular equity trending down or sideways is less likely. However, if one's entry point was on or just before March 2020, there was likely short-term heart-ache experienced.   For some institutions, and especially for those who were waiting for a pullback as an opportunity, it was one for the books.

A new position in Home Depot (HD) on March 11, 2020 at would have yielded a 35% increase in today's market. In that same time frame, a new position in Costco (COST) would have yielded a 26% increase. These are not recommendations of companies to own or invest in, simply two of many examples that could be cited, simply to demonstrate the return that could be captured when adding on the down.

Ideally if the downturn had been anticipated one would have raised cash as a 'risk-off' strategy in preparation for the downturn. With cash sitting on the sidelines, the sell-off that started in March 2020 was an ideal opportunity and re-entry point for some select equities. In the weeks that followed, the market began to recover and just like that, the re-entry yielded its payoff nicely. Now, not all such sell-offs create this same perfect scenario. What if the market continued to fall once the re-entry was made? This would suggest that a dollar-cost-averaging strategy may want to be instituted.

Dollar-Cost Averaging is a strategy that allows an investor to buy the same dollar amount of an investment on regular intervals. The purchases occur regardless of the asset's price. In layman's terms, one would continue to add to a position at regular periodic intervals (whether the value of the stock has increased OR decreased) thus averaging out the cost basis of the position.

There is always risk in investing, however strategies such as these are ways to reduce risk and increase potential upside. The real long-term risk of adding on the down is if shares continue to be purchased in a company that is failing. Historical examples of stated risk in such equities as Sears or Enron for example. These are two examples of falling knives that one just would not want to try to catch. Although less frequent, this 'catch a falling knife' scenario is a risk of being invested in individual equities.

In summation, there is little downside risk and so much more upside potential to adding on the down, this is a strategy which should be utilized more often than it is. Unless one has a crystal ball and can predict the markets, it is difficult to know when to make an entry point in a falling market. For institutional investors, this is likely one of the many services you are paying your financial advisor to do for you. Now, if you have a 'passive' portfolio manager, it is unlikely they will be making many if any adjustments to your portfolio, as most passive managers will tell you they're riding it out. Riding it out is great for the investments already in place, but are they going to buy on any pull-backs? If the answer is 'no' you may want to think twice about the management fee you are paying them. Conversely, an 'active' portfolio manager will be all over the pull-back looking for the best entry point. There is never any guarantee that the re-entry will be a perfectly timed one, however, adding to any position while it's value is lower than it was is generally a favorable trade (unless of course the position being added to was Sears, GE or any like kind equity which has fallen out of favor or filed bankruptcy).

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