Northwestern Mutual
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The Top Three Mistakes Investors Make During a Pandemic

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A dear client called me the other day and he wanted to make a drastic change to his portfolio. Making that change could have cost him a significant amount of lost compound interest over his lifetime, and potentially forced him to delay his retirement by five years. After our call he rethought his strategy, and his retirement is now more likely to be better because of it.

There is a lot of fear and uncertainty in the markets right now. The S & P 500 is down 26% for the year as I write this. A lot of businesses are facing temporary or longer term shut downs. And most importantly, people's health is affected. I pray that you and your family stay healthy, and that this situation is resolved quickly and with minimal loss of life.

With that said, I want to educate you on the three biggest financial mistakes I'm seeing in the market right now, and what to do about them.

1) Selling stocks when they're down

I understand what you're feeling. There is a pit in your stomach when you think about the state of your 401(k) or IRA. Maybe you don't even want to open your envelope to look at it. The idea of selling now may be attractive, because it would help you feel that you're taking control of your situation. This is a mistake. The bigger risk is potentially missing out if/when the market jumps back up. I don't have a crystal ball. But if you missed just the 10 best trading days in the last 20 years, depending on the assets you were invested in, your return was possibly only half of what it would have been if you would have stayed invested the entire time. If you're having concerns about your investments, call your financial planner and set a time to calmly review them.

2) Not rebalancing

When you see the value of your stocks dropping, the last thing you may want to do is to buy more. You may even want to run the other direction and sell. But that may be missing a significant opportunity to create wealth. Right now is a wonderful time to rebalance your portfolio. This means selling some of the bonds that may have made money over the past month and reinvesting the profits into stocks that are cheaper. By buying low, you will own more shares of the companies. And assuming things eventually turn around, which I'm confident they will, you will have increased your net worth. Speak with your financial planner about when is a good time to rebalance your portfolio. And be sure to include your 401(k) in your rebalance strategy.

3) Paying unnecessary taxes

Taxes may be the last thing on your mind when you're watching a once in a generation health crisis occur. But if you don't plan now it may potentially cost you upwards tens of thousands of dollars in taxes in the future. One strategy to help minimize your tax liability is tax loss harvesting for your non-retirement investment account. This means selling some of your stocks to create a loss, and then immediately turning around and buying a similar stock or fund. Another strategy is doing a Roth conversion of your IRA right now. You may be able to pay much less in tax by converting your Roth now, assuming that you're in a lower tax bracket now than when you retire. Be sure to consult with your financial planner before acting on these to make sure you abide by the rules. Also be sure to consult with your tax professional for your specific situation. Finally, please remember that no investment strategy can guarantee a profit or protect completely against loss in a down market.

Let me know if you'd like to set up a complementary phone call to review your plan.