Bonds and equities have both sold off recently. That’s the worst of all worlds from a portfolio standpoint, but the market move hasn’t been as bad as it might seem.

First, the S&P is basically just back to where we were during the summer and only a few percent from the all-time high. The negative return in bonds barely registers in the year-to-date perspective. That’s very normal volatility. I shouldn’t even be writing about the decline, but financial TV doesn’t make it seem normal with all of their blinking red lights and “STOCKS PLUNGE” headlines. I guess “Equities flat since July” doesn’t get ratings.

Second, a sizable number of the individual equities in the US market are technically in correction territory. Make sure you take advantage of that by harvesting losses wherever you can and also rebalancing within your equity portfolios if you need to do so.

Third, fixed income investors should be rejoicing, but I’m not naive enough to think they are. Yields are higher than they’ve been since 2011, which means everyone should be more optimistic about bond portfolio returns than they’ve been in a long time. We needed to experience some short-term pain for rates to move up, but the benefit of higher returns going forward more than makes up for it. There’s a saying that the equity market is the only market on the planet where buyers run out of the shop as soon as everything goes on sale. Let’s keep it that way, and not add fixed income investors to that group.

Fourth, this is as good of a time as any to remember why we own bonds. It’s not because they never lose money over the short term. They do. But we own them for (1) income or (2) diversification. If you’re using bonds for income, the day-to-day mark-to-market shouldn’t matter. You get the income and they mature at par. If you are using fixed income for diversification, the mark-to-market shouldn’t matter much either, except for during a bear market. No matter what has happened so far – if the US economy is pushed into a recession we can be pretty confident that high-quality fixed income will quickly become the best performing asset class in all of our portfolios.

Fifth, make sure you’re comfortable holding your current portfolio through a bear market. We’ve all had better-than-expected investment returns over the last 8 or 9 years. Now might be the time to think about reducing risk for certain reasons, like if you’re getting closer to retirement, even if your overall outlook is positive. Why? The volatility of your portfolio is directly correlated to what you can spend in retirement. If you lose 20%, your total future consumption declines 20%, so you may or may not be able to maintain the same risk today that you had 5 or 10 years ago. In any case, know why you own the bonds you own, why you own the stocks you own, and how they both add up to give you...
the best likelihood of meeting your goals and objectives. That'll go a long way to making good decisions if the sell-off continues.

See the Intellectual Capital Blog, Stocks plunge?, 10 October 2018.
Important information
As a firm providing wealth management services to clients, UBS Financial Services, Inc is registered with the U.S. Securities and Exchange Commission (SEC) as an investment adviser and a broker-dealer, offering both investment advisory and brokerage services. Advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate contracts. It is important that you carefully read the agreements and disclosures UBS provides to you about the products or services offered. For more information, please visit our website at www.ubs.com/workingwithus.
©UBS 2017. All rights reserved. UBS Financial Services Inc. is a subsidiary of UBS AG. Member FINRA/SIPC.
There are two sources of UBS research. Reports from the first source, UBS CIO Wealth Management Research, are designed for individual investors and are produced by UBS Wealth Management Americas (which includes UBS Financial Services Inc. and UBS International Inc.) and UBS Wealth Management. The second research source is UBS Investment Research, and its reports are produced by UBS Investment Bank, whose primary business focus is institutional investors. The two sources operate independently and may therefore have different recommendations. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor. If you have any questions, please consult your Financial Advisor. UBS Financial Services Inc. is a subsidiary of UBS AG and an affiliate of UBS International Inc.