



Tapping into the Liquidity strategy instead of liquidating investments at “bear market prices” can help us to avoid the risk of permanently locking in losses. (UBS)

# Three reasons to be confident and calm, even during market drawdowns

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**It's never easy to go through a market sell-off. When we see our hard-earned dollars dwindling in value, it's natural to feel anxious about what this might mean for our families and our ability to achieve our goals.**

Having a clear plan can help us to weather market storms and even take advantage of volatility.

Here are three reasons to be confident and calm, even during market drawdowns.

## **Sell-offs are painful but short-lived**

We have words to describe different levels of market declines, based on the size of the drawdown from the last all-time high. A greater-than-10% drawdown is known as a “correction,” and if the sell-off exceeds 20% it becomes a “bear market.”

At the time of writing, the S&P 500 is in a correction, but it's possible that this will become a bear market. For the purpose of planning, it's best to assume that we will experience a bear market so that we're prepared for the consequences.

During bear markets since World War II, the S&P 500 fell an average of 32% from peak to trough, and it took an average of three years before reaching a new all-time high. For investors with a diversified portfolio, losses were milder and recoveries

were swifter; a 60% stock, 40% bond portfolio experienced an average bear market drawdown of 19%, staging a full recovery of these losses about two years and three months after the market peak.

### **A Liquidity strategy protects against bear market damage**

Because we understand bear markets, we know how to protect against them. If we do not sell during a bear market, then it will leave no lasting damage on our portfolio's ability to generate growth. A well-funded Liquidity strategy—holding enough cash, bonds, and borrowing capacity to cover spending needs for the next 3–5 years—is enough to fully insulate our day-to-day spending from market volatility.

Tapping into the Liquidity strategy instead of liquidating investments at “bear market prices” can help us to avoid the risk of permanently locking in losses. With this financial cushion, we can maintain our lifestyle comfortably while we wait for markets to recover. This helps to preserve our long-term assets' ability to rebound from their losses and participate fully in the market's long-term growth potential.

### **We have a plan to take advantage of market volatility**

With the Liquidity strategy to help protect us against bear market damage, we can make tactical adjustments that help us improve our portfolio's ability to participate in a market rebound. As we discuss in [Five actions to help manage uncertainty](#), we can rebalance to “buy low and sell high”; enhance our after-tax growth potential by harvesting capital losses and/or implementing partial Roth conversions; and avoid locking in otherwise-temporary losses by tapping into borrowing strategies to create liquidity.

Speak with your financial advisor about opportunities to harness heightened market volatility. For example, volatility tends to improve the risk/return profile of options strategies and structured investments, allowing you to potentially increase your portfolio's yield and/or growth potential while maintaining protection against potential losses.

For more information on past market cycles, and actions that you can take to manage market volatility, please see [ubs.com/bearmarketguidebook](https://ubs.com/bearmarketguidebook).

\*Timeframes may vary. Strategies are subject to individual client goals, objectives, and suitability. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.

Original report - [Why we're not worried—and you shouldn't be either, 3 April 2025](#).

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