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Three Opportunities in a Down Market

By Xenia Woltmann

Nearly three years ago, I sat down to write this exact article amid illness, war, and turbulent economic conditions. By the end of 2022, the S&P 500 lost nearly 20%, making it the worst performing year since 2008. Fortunately, the market turned around in 2023 and 2024, and those that stayed the course through those three years ended up with growth of roughly 23%. While tariffs, war, inflation, and economic doubt will be continued sources of stress, the optimism we felt only a few months ago is now overshadowed by concern. Although we cannot predict what lies ahead, we can look for the silver lining by taking advantage of opportunities that have presented themselves.

One advantage to the current environment is tax loss harvesting. While the market is down, take the time to reevaluate your portfolio, removing underperforming assets that no longer serve the purpose they were intended for. Reallocate those funds into more efficient holdings.

A down market is also a great time to rebalance your portfolio. Whether you want to diversify away from an overly concentrated holding to reduce risk, or trim some of the holdings that recently fared well to invest in others that are perhaps now on sale, times of volatility can make these decisions a little more transparent.

Another opportunity lies in Roth conversions and the potential for future tax savings. Since the process of converting traditional retirement assets to a Roth account is a taxable event, it would be ideal to do this when there is a decline in value. This will allow you to convert more shares than you normally would, allowing for the rebound to occur in the Roth IRA instead. This may also help reduce your tax liability on future Social Security income as Roth distributions will not be included in the calculation to determine if benefits are taxable.

According to research completed by Kiplinger, the average bear market lasts just over 9 months and roughly occurs every 56 months. An average bull market lasts about 32 months. On average, it has taken 13 months for bear markets to hit bottom (in 2020, it was only 32 days). While history cannot guarantee the future, bear markets are usually an attractive time to invest funds that have been sitting on the sidelines. Barron's sites that historically, a year after entering a bear market, returns averaged 17%, with positive returns 75% of the time.

"Whether we're talking socks or stocks, I like buying quality merchandise when it is market down."
– Warren Buffett

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