Should Your Change Your Investing Strategy?

There is no one-size-fits-all answer, but tactical shifting might make sense

Wise investors alter their approaches as market cycles shift, from bull to bear to something in between. A consistent strategy might be far more risky than one that involves tactical shifts according to the season.

Take most 13-year-old boys, who love wearing shorts and T-shirts. They love this so much that they wear this attire all year-round, no matter how cold it is outside. Boys do this for two reasons:

1. That is the style now.
2. They are 13 and just don't know any better.

This is not unlike how a lot of individual investors behave. They follow a traditional asset allocation/buy and hold approach, regardless of what the market is doing. This, and any other strategy, works fine in a bull market, just like wearing shorts and a T-shirt is fine during the summer. But it gets you crushed in a down market.

Think about three different types of markets, each requiring its own investment strategy:

So-easy-a-caveman-could-do-it market

In such bullish times, the market goes up in a mostly straight line. Even someone with a brain the size of a walnut could make 15% per year.(apologies to any cavemen reading this, if you can read, that is).

The 1995-1999 tech-boom market is a great example as was the most recent 11-year bull market. In these types of markets, just about anything that you invested in worked very well. This is true with an asset allocation or a trend-following tactical strategy.

Bear market

This is one that goes down a lot. Great examples of this are the 2000-2002 and 2008 markets and maybe the 2020 Coronavirus bear market happening now. Any strategy that has you fully invested gets hurt in this type of market. This is just like your 13-year old son wearing shorts in the dead of winter: he feels comfortable because everyone is doing it, but he is freezing his butt off. In this market, a better strategy might be to invest in cash and bonds.

Risky market

Here, volatility is high, which produces some returns but is at great risk of falling into a slump. The current cycle kind of embodies this.

Yes, the market is technically in a bear market, but volatility is also at its peak. We are seeing historical one-day point losses and one-day point gains.

Although a fully invested strategy in this market could work out ok, is the risk worth it? That depends on your appetite for risk of course.

This is like that 13-year old boy wearing shorts in the fall: If he gets a warm day, he is fine; if he doesn't, he gets really cold. Maybe a more tactical approach is the way to go in this market.

Tactical investing

A good tactical strategy often trails a fully invested approach if the market is going up in the face of great risk (albeit with much less volatility). But it can protect you if the risky market turns bearish. With this strategy, you alter the mix of your assets based on their price performance. You favor asset classes trending upward, and unload those going down.

In simple terms, there are two tactical methods to consider:

- Relative strength, also called momentum, has you buying the strongest investment from a basket of two or more asset classes. That could be stocks and bonds, or U.S. shares and international ones.
- Counter trend analysis entails buying into short-term weakness and selling into short-term strength.

Neither of these are market timing, which involves predictions. Market timing tries to get out at market tops and in at market bottoms. Tactical allocation only moves when a trend is clear.

Talk to your advisor to see if incorporating some tactical investing makes sense for you.