Stocks Are in Chaos. Control the One Thing You Can. Whether the market goes up or down from here, it's time for an honest assessment about what you can do to minimize your regrets

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FULL TEXT

With U.S. stocks down—at their worst—around 27% in 16 trading days, investors need to get out of the prognostication business. Nobody—not epidemiologists, not government officials, not economists and certainly not market strategists—can say how large an impact the coronavirus will end up having. The optimists might be wrong; so might the pessimists.

Investing, now more than ever, is about controlling the controllable. You can't control the markets. You can't control the coronavirus. You can control your own behavior, although that requires making accurate, honest predictions about yourself.

Controlling the controllable doesn't just mean shrugging off whatever is out of your power. It also means putting some calm and serious thought into what is within your power. Your future success may depend less on what markets do—and more on spending a few quiet minutes figuring out who you are as an investor.

Years ago, the psychologist Daniel Kahneman told me that one of the keys to investing is having what he called "a well-calibrated sense of your future regret."

By that, he meant that you need to be able to tell, in advance, how bad you will feel if your decisions turn out to be wrong. As he warned with that word "well-calibrated," it isn't as easy as it sounds.

SHARE YOUR THOUGHTS

What will you do to minimize your regrets? Join the conversation below.

Investors are full of false bravado. It's a cinch to say you'll buy more stocks if the market goes down 10%. It isn't even that hard not just to say it but to do it— a few times . Buying the dips is almost fun when the market goes down a little bit every once in a while.

But when stocks go down 7% or more in a day twice in a single week, the person you thought you were last Friday isn't the person you are this weekend. A week ago, you thought you were ready for whatever the market could throw at you. Now, you'd flinch if a toddler tossed a marshmallow at you.

Will you be able to keep buying all the way down if the market goes down another 25%—or more? Will you even be able to hold on? Can you stand watching every dollar you had in stocks turn into 50 cents or less?

On the other hand, what if the panic subsides and stocks resume their climb—after you impulsively moved to the safety of cash and bonds that generate almost no income? How badly will you kick yourself over getting out of the market because of fears that didn't fully materialize?

At the most basic level, those are the two potential regrets most investors face: the risk of losing massive amounts of money if the epidemic worsens, versus the risk of missing out on what could be a robust rebound if the virus abates.

You can minimize one risk, but not both. As the poet W.H. Auden wrote in 1936 , you can only take one path at a time:

"Clear, unscaleable, ahead

Rise the Mountains of Instead
From whose cold, cascading streams
None may drink except in dreams."

Only by creating a circle of calm around yourself can you honestly evaluate which type of regret is likely to bother you more down the road.

First, if you were investing back in 2008-09, go back and look at your actual account activity— not your warm and fuzzy memories of it —to see what you did the last time markets were in meltdown.

If you bought or stood pat as the U.S. stock market dropped more than 55% between October 2007 and March 2009, you're a good candidate to be able to weather this downdraft, too, without panicking.

However, if you're in or near retirement now, then the need to protect your capital from further sudden erosion could make you more conservative than you were back then. So consider that now, when you can—rather than later, when you will have to.

Also , regrets tend to be hotter and more painful when an outcome appears to be caused by your own actions rather than circumstances that seem beyond your control. Regret is also more intense when you take an action that is an unusual departure from your normal pattern.

So taking small actions over time, rather than making a big drastic decision all at once, should help reduce your future regrets regardless of what the markets do from here.

If you feel you must sell stocks to calm yourself, do it gradually rather than in giant steps—ideally, by setting a new target level and then moving toward it over time in automatic fixed amounts or percentages that will take some emotion out of the decision.

Consider, also, that if you have tuition or another large bill coming due, you could pay with shares of stock or funds rather than cash. If you have shares that have fallen below your purchase price, you may be able to sell them to meet a large payment and then use up to $3,000 of the resulting loss to reduce your taxable income or to offset current or future gains. (Consult your accountant first!)

Conversely, if the market collapse makes you want to buy stocks, don't do that impetuously either. Nibble in equal amounts over the course of weeks or months.

Above all, small steps are the best way to avoid big regrets.

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