Smart Financial Planning Strategies During Down Markets: Invest Excess Cash Into the Market

The current stock market turmoil due to the coronavirus pandemic may cause some investors to panic sell or at least avoid putting more money into the market, but in times like these, it’s helpful to think of famous Warren Buffet quote: “Be fearful when others are greedy, and be greedy only when others are fearful.”

In other words, the fear currently circulating in the market could be a signal that now is a good time to invest excess cash.

While you don’t want to try to perfectly time the market — it’s a guessing game as to whether stock prices could still continue to fall or whether we’ve reached the bottom — those who buy and hold investments long term may be able to buy stocks at a discount right now. If you think that stocks will eventually recover close to or even above their previous highs over the next several years, as they have following other downturns such as the 2007-2008 financial crisis, then investing now could yield significant returns.

To that point, Warren Buffet noted in a recent CNBC interview that “Most people are savers, they should want the market to go down. They should want to buy at a lower price.” He also added that “We’re buying businesses to own for 20 or 30 years...and we think the 20- and 30-year outlook is not changed by the coronavirus.”

Who Should Allocate Excess Cash Into the Market?

Although bear markets like the one we’ve recently entered can be a good time for long-term investors to invest more, not everyone should follow the same investment strategies.

For one, your ability to invest excess cash into the market shouldn’t just be determined by how much money you have in your checking and savings accounts. Instead, you should also take into account factors like your need for cash based on your job and income security.

For example, a business owner who’s had to temporarily close due to the coronavirus may need more cash in their emergency funds to navigate this difficult situation, whereas someone who works at a B2B software company may feel like they have more job/income security since there may still be a significant need for their software throughout the pandemic as people work from home.

Investors should also consider factors such as their age. For example, if you're getting close to retirement, you might not want to invest excess cash into the market, or at least as much, because it's unclear how long you might have to wait until you can earn a return on your investment.

Conversely, young investors generally have plenty of time to buy and hold investments, so those who can afford to invest excess cash have an opportunity to significantly grow their retirement accounts in the long run.

How to Invest Excess Cash Into the Market

Even among those who have the ability to invest excess cash into the market, investment strategies can differ significantly based on factors like risk tolerance and investment philosophies.

For example, some investors may feel confident in their ability to recognize individual stocks that are good buying opportunities right now. There may be some stocks that investors think have been caught up in the broader market selloff but which will still have strong earnings despite the coronavirus pandemic. If that's the case, then these individual stocks could be trading at a discount.

Others, however, believe that investing in index funds that cover a broader swath of the market will provide better returns and reduced risk, as trying to pick individual stocks can be a difficult guessing game.

For example, rather than trying to decide whether Apple or Microsoft will perform better over the next several years, you could invest in an index fund or other mutual fund that covers the technology sector or the S&P 500, thereby giving you exposure to both of these companies along with many others. Then, even if a few companies falter, you can enjoy the gains of other companies within that fund as the market hopefully recovers in the long run.

Before investing excess cash into the market, you may also want to reevaluate your risk tolerance and how that affects your investment strategies. Speaking with a financial advisor can help you determine what levels of risk and volatility you're comfortable with and how different types of investment strategies can help you meet your goals.