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Price of Admission

Sequence Risk: The Inconvenient Truth About Markets and Timing

Planning for average returns is easy; surviving the actual sequence is harder. Markets don't hand out returns in smooth installments, and you don't get to pick which years come gift-wrapped and which arrive as gut punches. Sequence of returns risk isn't some academic curiosity—it's the lived experience of every investor who's had to stay the course while their portfolio feels like it's bleeding out in real time.

You can't sit this one out. Whether you're drawing from your portfolio or simply watching from the sidelines, you've already bought the ticket. And while the destination may still be promising, the journey can get painfully bumpy along the way.

Let's be clear: the only ones walking away from these environments as total winners are the people who were totally wrong for a very long time. They bet against the market, sat in cash, endured ridicule, and now, for a fleeting moment, they look like geniuses. But make no mistake—that is not a repeatable investment strategy. That is survival bias dressed up as brilliance.

For the rest of us, discipline matters. If your starting allocation was built with diversification in mind, now is not the time to second-guess yourself. Diversification feels like a cruel joke when correlations spike and everything falls in unison. But when those correlations break apart—and they will—the benefits of spreading risk across asset classes and geographies come back into focus. Markets eventually reward diversification, though rarely on your preferred schedule.

Then there's rebalancing, the most boring yet essential part of portfolio management. If you've let it slide, you've probably been reminded why it's not optional. Allocation drift sneaks up on you. What started as a carefully constructed portfolio can morph into an unintended, riskier profile if left unattended. Routine disciplined rebalancing forces you to trim from areas that have run hot and reinvest in areas that have cooled—precisely when your emotions might be urging you to do the opposite.

Speaking of emotions: action absorbs anxiety. There's truth in that. In volatile markets, doing something feels better than doing nothing. But not every action is productive. The urge to react, to "do something," often leads investors to impulsive choices: abandoning strategy, capitulating at the lows, or chasing false bottoms. If you're feeling the itch, consider channeling it constructively. Use limit orders, or place good-til-canceled buy orders at levels meaningfully below the market. This way, if opportunities present themselves, you've pre-positioned yourself without acting out of panic. You create a cushion you didn't think was possible, and you protect yourself—from yourself.

It's also worth remembering you never want to make big decisions from an emotionally fragile place. This is true in life after a breakup, a job loss, or worse, and it's true in investing. When screens are flashing red and your portfolio feels like a shrinking balloon, resist the temptation to make sweeping changes. Walk away from the screen, talk to someone rational, and revisit your plan with a clear head. Rash decisions compound pain; patience compounds returns.

Let's play out a thought experiment. Imagine, three years ago, someone told you the market would deliver a +15% year, followed by +30%, and then -10%. But—and here's the catch—you wouldn't know the order in advance. Would you have signed up for that ride? Most rational investors would have, recognizing that the full cycle still skews in their favor. Yet, when living through it, the sequence can feel intolerable. That's the trap. Sequence risk turns hindsight clarity into real-time discomfort.

If someone convinced you that you could play this game selectively, dipping in for the good years and sitting out the bad, they lied to you. That luxury does not exist. The real risk is not the market—it's believing you can avoid its discomforts altogether. Your job is not to dodge volatility entirely, but to endure it with discipline and purpose.

At the end of the day, sequence risk is a reality, not a choice. The market does not accommodate your preferred timing, nor does it reward those who try to game the system in the heat of the moment. Staying invested, rebalancing deliberately, and respecting the role of diversification are the practical defenses you have at your disposal.

Because you're in the game now. And the only way through it—is through it.

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