

Should You **Touch** a Model Portfolio in a Market Fall?

Rules to reduce emotional mistakes

A behavioral framework for when to stay, when to act, and how clear exit rules limit regret during downturns.



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The Real Question & Why **Rules** Matter

Discipline vs emotion under stress

1

Emotion drives mistakes: fear and regret cause poor decisions

Behavioral reactions, not markets, lead to suboptimal trades

2

Rules-based framework reduces impulsive errors

Predefined responses prevent headline-driven actions

3

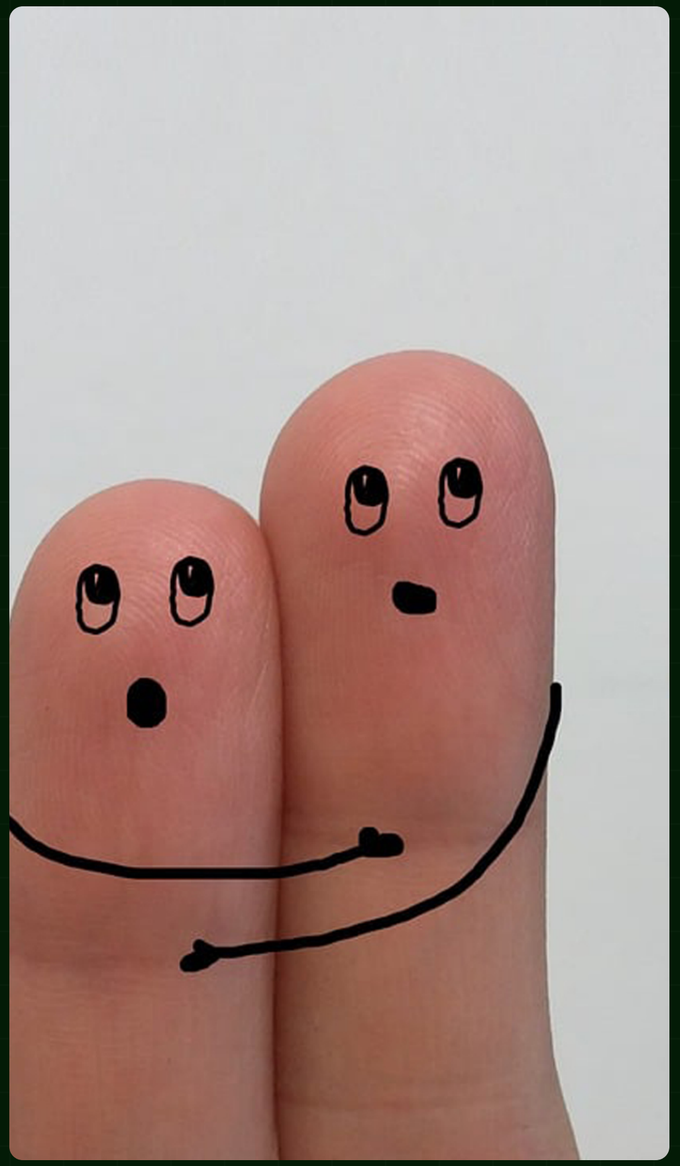
Aligns actions with historical drawdown expectations

Maintains discipline by matching behavior to past risk

4

Outcome: steadier decisions under stress

Less panic, more consistent adherence to plan



Hold Model Portfolios, With Two Exceptions

Stay steady through normal drawdowns; act only for regime or quality breaks

1

Primary stance: **Hold** through normal market drawdowns

Losses are built into historic statistics; avoid tinkering during routine volatility.

2

Exception 1: Market-level **regime break**

Significant, persistent structural change in markets justifies review or repositioning.

3

Exception 2: Stock-level quality **breakdown**

Material deterioration in a security's fundamentals warrants replacement.

Rule #1: **Normal Falls** = Do Nothing

Discipline over reaction during routine market wobble





Single clear claim: Do nothing for normal falls

When drops reflect routine market movement, no action is required.



Why: these drops are captured in historical drawdowns

Choppiness, rate moves, headlines, or isolated positions are expected.



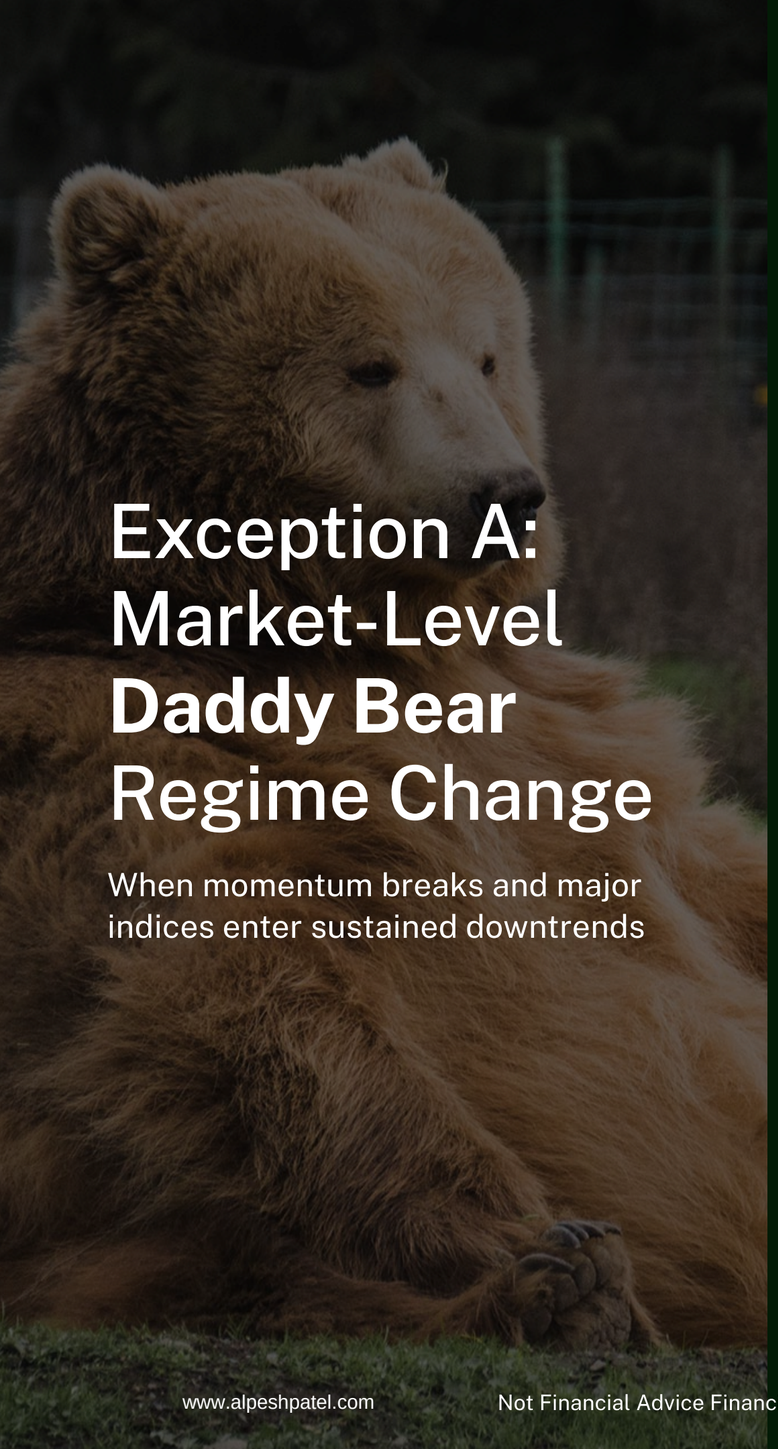
Risk: emotional reactions worsen outcomes

Mistaking inevitable volatility for a reason to change course harms results.



Action: maintain discipline and stay the course

Stick to your plan during normal drawdowns to preserve long-term performance.



Exception A: Market-Level **Daddy Bear** Regime Change

When momentum breaks and major indices enter sustained downtrends

3

Decision Trigger

Step to cash if risk tolerance is low and trend confirms; not for daily headlines

2

Regime Change

Momentum breaks, major indices in sustained downtrends, structural risk off

1

Normal Volatility

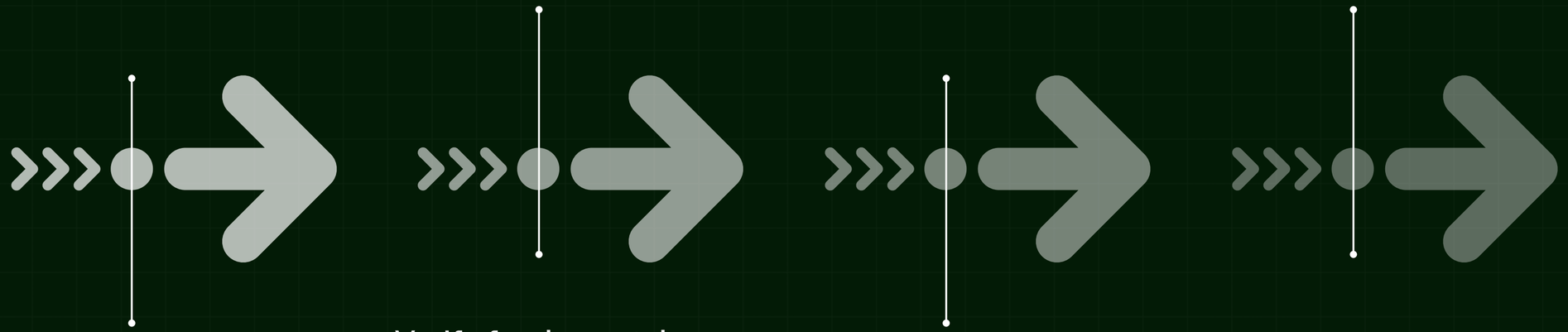
Short-term swings, momentum intact, bounce potential; noise not regime change

Exception B: Manage a **Daddy Bear** Breakdown

Signal detection to removal when a stock loses quality

Detect signal

Identify a defined Daddy Bear breakdown or early signs of quality loss in real time



Verify fundamentals

Confirm deterioration in earnings, cash flow, or competitive position before acting

Decide action

Remove or replace the holding if deterioration is confirmed; keep rare exceptions documented

Replace and rebalance

Allocate proceeds to higher-quality opportunities to maintain portfolio integrity

Practical Rule of Thumb for Investors

Horizon-based actions and a rules-based exit plan

Short horizon

3

Higher need for active risk management

Recommended horizon

5

Tolerate volatility and mostly hold

Daddy Bear rule

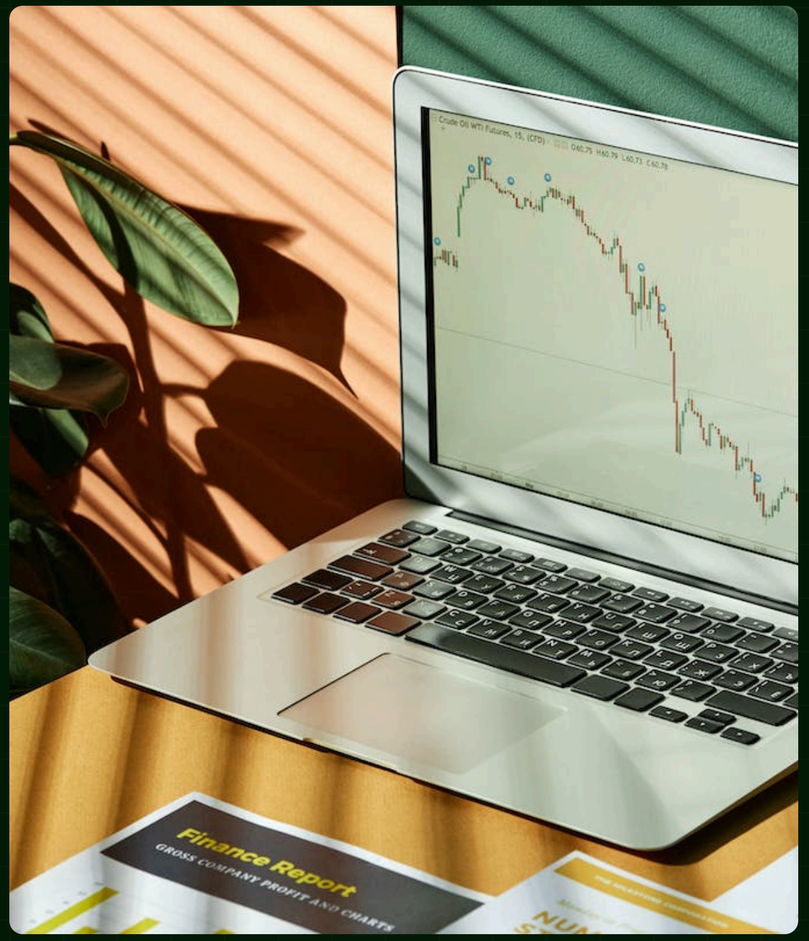
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Predefined exit criteria for major breakdowns



Why this framework works

Reduce mistakes and choose the least-regrettable long-term path



Clear exit rules to remove guesswork

Predefined sell triggers lower emotional timing and unforced errors

Defined risk tolerance so decisions match capacity

Set loss limits and position sizes aligned with your threshold

Regret management: decide which regret you can live with

Choose a path that minimizes long-term regret, not short-term fear