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The View from Here

HOW THINGS LOOK depend on where you stand. Trying to figure out how to respond to the market drop? After the initial slump, a brief rally and then another decline, the S&P 500 is down 10% from its September all-time closing high of 2930.75.

History suggests that, five years from now, share prices will be no lower than they are today, and 10 years from now they'll be handsomely higher. But at times like this, history can be scant comfort.

What matters is making sure you get through the years ahead without too many self-inflicted investment wounds. To that end, consider four scenarios:

1. If you're buying stocks regularly, keep calm and carry on.

Sure, the price of the stocks and stock funds you own may have shrunk. But with every dollar you add to your 401(k) plan, IRA or regular taxable account, you're now purchasing shares at cheaper prices.

In other words, this market decline has a huge silver lining—and the more you save each month and the younger you are, the bigger that silver lining is. As a regular buyer of stocks, you should be rooting for share prices to stay low through your heavy-duty savings years, and only wish for a rally as the time approaches when you'll spend your nest egg.

2. If you will need to draw from your portfolio, count your cash.

Add up how much money you'll need from your financial accounts over the next few years. Do you have the necessary sum in cash investments and high-quality short-term bonds? If not, I would seriously consider raising the necessary cash from the riskier side of your portfolio. The fact is, if you have money you'll need to spend in the next five years, it's financially dangerous to have it sitting in stocks and high-risk bonds.

I realize it's painful to sell shares when the S&P 500 is down 10% from its peak. But let's face reality: If this is the beginning of a bear market, things could get a whole lot worse from here. In a bear market—defined as a decline of 20%—the drop turns out to be around 35% on average (though the precise average varies depending on which index and what time period you look at). It's far better to sell at today's somewhat reduced prices than hem and haw, only to see stock prices plummet.

3. If you sense you have too much in stocks, it's decision time.

There's your objective situation: whether you're adding fresh savings to your portfolio or looking to tap it for spending money. And then there's the tricky subjective issue: How will you feel if stocks keep falling—and is there a risk you'll freak out?

Repeat after me: Nobody knows where stocks are headed in the weeks and months ahead, which means you shouldn't be deciding whether to buy or sell based on yours or anybody else's wild guess.

So what should be the determining factor? More than anything, you should ponder how you would react if share prices slumped another 10% or 20%. Would you shrug it off—or would you be miserable, and potentially panic and sell at fire-sale prices?

If you're already feeling anxious, it's probably best to panic now and lighten up a little on stocks, while prices are still at relatively lofty levels. The odds are, you'll be banking profits. After all, the S&P 500 is up 1% over the past 52 weeks and 289% since March 2009, and that doesn't include dividends.

4. If you feel you're underweighted in stocks, prepare for reentry.

Start by deciding how much of your portfolio you'd like to move into stocks. Next, settle on a schedule for getting the money invested. Again, this should be based not on some wild guess about the stock market's direction. Instead, what matters is what you can stomach.

If the current market swoon turns into a bear market, history suggests the peak-to-trough decline will take somewhat more than a year, though past bear markets have been as short as three months and as long as three years. That means we could be in the early days of this decline and prices could be much more attractive down the road. But there are no guarantees: This decline might take far longer and be far deeper than the typical drop—or the current mild market indigestion may never turn into a full-blown bear market.

My advice: Take the money you have earmarked for stocks and divide it into 24 monthly investments. If stocks tread water or rally from here, you'd invest the money on that schedule. If the S&P 500 falls another five percentage points, so it's 15% below its all-time high, you might double the size of your monthly investment. The trigger would be 2491 or below on the S&P 500. If the S&P 500 drops 25% from its all-time high, to 2198, you would triple how much you invest each month.

Does that seem too aggressive—or not aggressive enough? Take my schedule and modify it for your own risk tolerance. But whatever you do, write down your planned investment schedule and tape it to your desk, your refrigerator or some other place you’ll regularly see it. That’ll be the reminder of what you committed to in calmer times.