

Westcourt Solutions



Entering a Bull Market

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Entering a Bull Market After a Liquidity Event

Advisors who work with entrepreneurs eventually encounter a defining moment: the liquidity event. A business built over 30 years is sold, and a client is now sitting entirely in cash. The timing feels awkward: equity markets are at or near highs, sentiment is optimistic, yet valuation charts look stretched. The sale has transformed concentrated operating risk into a different problem: how to redeploy a large pool of capital into what feels like an expensive market without destroying peace of mind.

This situation highlights the core tension between financial theory and human psychology. The “spreadsheet answer” tends to favour one course of action, while the emotional reality of seeing seven-figure swings in value pushes in another direction. The challenge is to balance the math with a structure you can live with and sleep with.

What the Math Says: Lump Sum vs Gradual Entry

In a world of expected returns and probability distributions, the answer is clear: if the long-run expected return on a diversified portfolio exceeds the return on cash, the rational move is to invest as much as possible as soon as possible. Historical data for balanced and equity-heavy portfolios show a positive drift over time, so being invested earlier generally leads to higher expected terminal wealth.

Studies that compare lump-sum investing to dollar-cost averaging (DCA) reach a consistent conclusion: lump sum wins more often than not. Virtually all available data on the subject show that investing everything immediately tends to outperform spreading it over 6-12 months in roughly 60-75% of historical periods, simply because markets rise more often than they fall. The “cost” of dollar-cost averaging, measured over long horizons, is typically a modest drag—often a few tenths of a percent per year—driven by the fact that some capital sits in lower-return cash for longer.

From a purely quantitative perspective, the verdict is straightforward: if you have the capital and a

multi-decade horizon, lump-sum investing into the target asset mix is usually the optimal choice.

The Bull-Market Dilemma for a Founder

For the newly liquid founder in a bull market, however, the story feels very different. The market does not look like a neutral statistical process; it looks “late cycle,” expensive and fragile. Headlines talk about record highs, tight spreads and speculative enthusiasm, and valuation metrics are being quoted well above long-term averages. Entering all at once raises a specific and vivid risk: going all-in shortly before a 15-20% drawdown.

Statistically, such a pullback is entirely normal for equities and is often a rounding error in returns over a 20-year horizon. Behaviourally, seeing a portfolio that embodies 30 years of effort fall by hundreds of thousands (even millions) of dollars in its first year can be excruciating. That early experience becomes an anchor: the investor may conclude “markets are a casino” or “I made a horrible mistake,” and respond by de-risking at the bottom. The issue is not just volatility, but the potential for an early loss to trigger a permanent change in behaviour.

Behavioural Constraints: Loss Aversion and Regret

This gap between “optimal on paper” and “survivable in practice” is driven by well-documented behavioural forces. Loss aversion means that losses hurt roughly twice as much as equivalent gains feel good, skewing decisions away from outcomes that involve visible downside, even if they carry higher expected value.

Layered on top is regret aversion, the tendency to avoid actions that could lead to feeling foolish in hindsight. For a founder, the nightmare scenario is clear: going all-in near a peak, watching a large portfolio fall sharply, and feeling that a single allocation decision has “wasted” decades of work. Regret-minimization frameworks explicitly recognize this: an investor may rationally choose a strategy with slightly lower expected wealth if it significantly reduces the chance of a psychologically

unbearable outcome.

There is also a mirror image: FOMO, or the fear of missing out. Sitting in cash while markets continue to grind higher can create its own form of psychological pain and can make it harder, not easier, to eventually step in.

Programmatic Entry as a Behavioural Solution

A systematic, programmatic entry plan is a practical way to reconcile the math with the psychology. Instead of going all-in or waiting indefinitely, the investor commits to investing tranches of capital according to a predefined schedule—say monthly over 12-24 months—into the target asset mix.

Mathematically, this approach accepts a modest expected-return penalty versus a lump sum, because some money remains in cash while markets may be rising. But it offers several behavioural advantages that are highly relevant to a post-sale founder:

- It lowers the chance of maximum regret. The investor avoids the all-or-nothing feeling of having made one giant timing call right before a drawdown. If markets fall early, later tranches buy at lower prices, softening the psychological blow.
- It reframes volatility. Some entries will look bad in hindsight, others good; the focus shifts from “one big bet” to “executing a process.”
- It reduces decision fatigue. Pre-committing to a schedule limits the need to constantly reassess whether “now” is the right time, which is where emotions often derail plans.

In practice, many advisors recommend a hybrid: invest a meaningful portion—perhaps 30-50%—immediately to respect the long-term math, and then phase the remainder in programmatically over a defined period to respect the behavioural constraints.

The Temptation to Wait for “Reasonable” Prices

The third option—doing nothing and waiting for prices to come back down to “reasonable” levels—

often feels safest to someone wary of near-term losses. The problem is that markets can stay expensive or become more expensive for years, and valuation-based sideline strategies have historically struggled to identify precise re-entry points without also missing large chunks of upside.

Behaviourally, staying on the sidelines introduces a different trap. As markets rise, the would-be investor experiences performance anxiety and fear of missing out but may still be unable to act because “it’s even more overvalued now.” When a correction finally occurs, the narrative flips to “things are too uncertain,” and the cash remains uninvested. This is how a desire for safety can evolve into a long-term underinvestment that neither maximizes returns nor minimizes regret.

Where the Math and Psychology Meet

For the entrepreneur who has just sold a business after 30 years, entering a raging bull market is fundamentally a problem of aligning two lenses. The quantitative lens says: set a long-term asset mix appropriate to goals and risk capacity and recognize that immediate deployment into that mix has the highest expected outcome. The behavioural lens says: structure the path in a way that minimizes the chance of a catastrophic, regret-driven decision at the first sign of turbulence. This is where advice really matters.

Framed this way, the client’s core question becomes: “How much expected return am I willing to trade to materially reduce the risk of a behavioural blow-up?” For many newly liquid founders facing this conundrum during a bull market, the answer is neither pure lump sum nor indefinite waiting, but a consciously designed hybrid—some capital put to work immediately, and the balance deployed through a disciplined, time-bound program. That is often the point where the math and the human being can coexist.

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