The 22.4% Rule

Should you sell when the yield curve inverts? A one-page decision checklist.

THE RULE

Selling at inversion only pays if the next bear market falls more than ~22.4% from the peak, and only if you re-enter near the low. That is two correct timing calls, not one.

THE 3-GATE CHECK

- [ ] Gate 1. Do you need this money within a year?
  If yes, trimming some equity can be reasonable.
- [ ] Gate 2. Will the next bear fall more than 22.4%?
  Unknowable in advance.
- [ ] Gate 3. Can you time BOTH the exit and the re-entry?
  Selling pays only if you also buy back near the low.

All three “yes” → a rare case where exiting may pay. Any “no” → rebalancing beats selling.

THE MATH

ending value of a $750,000 balance after the 28.8% rally to the peak

Bear-market depth	Held through	Sold to cash	Gap
0% (no recession)	$966,000	$750,000	+$216,000
10% (mild)	$869,400	$750,000	+$119,400
20% (moderate)	$772,800	$750,000	+$22,800
22.4% BREAK-EVEN	—	—	$0
34% (avg postwar bear)	$637,560	$750,000	–$112,440
49% (2007–09 bear)	$492,660	$750,000	–$257,340

DO THIS INSTEAD

→ Rebalance to your target allocation instead of moving everything to cash.
→ Write down the single market level that would actually change your plan.
→ Track the 2-and-10 spread yourself on FRED, and let a pre-set rule (not a headline) drive the call.

Sources: Bauer & Mertens (2018), FRBSF; LPL Research / Ryan Detrick via Kiplinger (28.8% rally); Federal Reserve Bank of Cleveland.

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