RESOLUTE FINANCIAL




Fee Only Financial Planning & Investment Management

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Resolute Connections - Stocks Go On Sale Again

If you're the kind of person who is inclined to worry, then October has given you plenty of stimulus. After yesterday's 3.1 percent drop in the popular S&P 500 index, the index has lost 8.8% in this month alone, wiping out all the gains that we've enjoyed this year, putting the index in negative territory. The once-soaring Nasdaq Composite Index of technology companies tumbled 4.4% on the same day, and is now 12.6% below its August market high putting it in official correction territory. The term correction is defined as a market pullback of at least 10% while a bear market is one of 20% or more.

In times when the markets are dropping, even if they haven't hit correction territory yet, the media needs to find a narrative, and you hear all sorts of theories. Corporate earnings have nowhere to go but down. The tariffs are slowing down economic activity. Interest rates are rising.

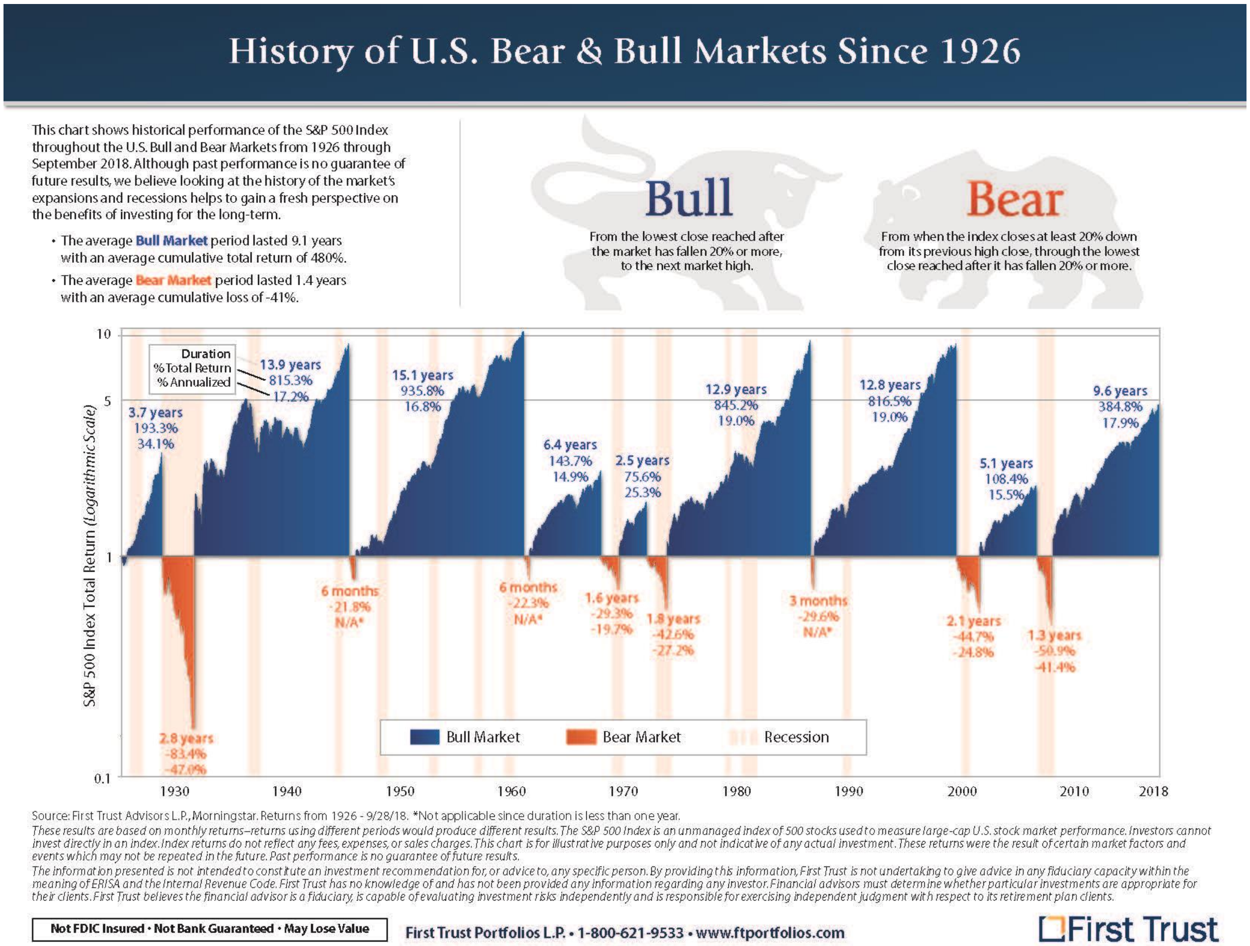
All of that is true, but none of it has anything to do with why the markets are falling. The only true headline, and one you will never read, is that stocks are falling because some people are losing faith in their investments and selling out to bargain hunters. Sometimes this activity feeds on itself; when people see the market falling, they, too, begin to panic.

The stock markets periodically deliver losses for reasons which are not always obvious even after the fact. Bear markets are a normal part of investing, and this is actually a good thing, because it allows real investors to periodically buy stocks at discounted prices. Research has shown that there is a gap between the return that most investors get from their stock investments and the actual returns delivered by those stock investments. This is, of course, because they sell this or that fund before it goes up, or sell out and then wait to get back in until the market has gone up past where they sold. Or more starkly, most investors buy high and sell low – not exactly how Warren Buffett became one of the richest men in the world. Getting the full return of the markets is relatively easy: just hang on during those periodic downturns.

But those downturns are terribly painful, right? Take a look at the chart below, created by First Trust Corporation, which shows the bull and bear markets since the Great Depression. Notice that the downturns have been sharp but relatively brief, while the up-markets have been protracted and generous. This has been the pattern up to now, and there's no reason to think it won't continue, unless you believe that the millions of people who go to work each day for their corporate employers are somehow destroying value instead of creating it.

You don't need an explanation for why markets go down in order to benefit from them. You just need the ability not to startle when the herd of investors suddenly makes an unexpected dash for the exits—to, as Mr. Buffett once said, be greedy when others are scared, and scared when others are greedy.

Worry about the downturn if you want, but know that worry is the precursor to being scared. And if you see somebody predicting where the markets are going to go from here, if they're not wearing a wizard's hat and gazing into a crystal ball, it's probably best to turn off your attention.



Source:

Bob Veres Inside Edition Newsletter

https://allstarcharts.com/stock-prices-falling-perfectly-normal/

https://www.bloomberg.com/news/articles/2018-10-23/asia-stocks-look-mixed-as-late-u-s-rally-falters-markets-wrap?utm_campaign=socialflow-organic&utm\

For more information on these topics or for a free consultation, contact Resolute Financial, LLC at (978) 463-8771 ext. 1003.

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