Stock Market Corrections - Things You Need to Know:

By Bob Deitrick, CEO, ChFC
November 26th, 2018

Both the 122-year-old Dow Industrial Average and S&P 500 had quadrupled this summer from their March 6th, 2009 lows. Meanwhile, the tech heavy Nasdaq has more than quintupled since hitting that same trough almost 10 years ago. We recommended to our clients that they re-enter the market in May of 2009. Those investors who have held on through the market hiccups, like the current one, have been handsomely rewarded.

However, the past seven weeks have been challenging. Since hitting all-time highs in late August and early October, the Dow is in correction territory with a decline of more than 9%; the S&P 500 has hit correction territory with a drop of 10.2% from its all-time intraday high; and the Nasdaq Composite has been disfigured the most, with losses of 15% since its peak. One reason the Nasdaq has been hit harder in this correction cycle is that it was barely affected by the correction earlier this year.

Clearly, folks are concerned. But should you be? I did some research on stock market correction facts that Steven and I wanted you to know regarding the present one and moving forward.

- ***Market corrections are more common than one might think:***

Corrections (or declines of 10% or more from the recent high) are more common than you may realize. Since 1950, the S&P 500 has undergone 37 corrections of at least 10%, and there have been quite a few other dips in the high single-digit (almost correction) range.

- ***No one can pinpoint when a correction may or may not occur:***

Corrections are impossible to predict over the long run. If an investor were to have held an S&P 500 index for 20 years between Jan. 1st, 1995 and Dec. 31st, 2014, they would have netted a cumulative return of 555% or 9.9% per year. This includes holding through both the dot-com crash in 2001/02 and the Great Recession of 2008/09. However, had you missed the 10-best trading days over this 20-year window because you scurried to the sidelines - your total return would have been cut by 65.5% to 191% or an average compound return of 3.4%. That is the risk inherent in market timing.

- ***We have no clue how steep of a correction decline will be:***

Not only are corrections impossible to predict, but we can never be certain how steep the decline will be when they do occur. Over the past 31 years, only two corrections in the S&P 500 have hit bear market territory (or a 20% decline), with the drop in 1990 coming within a tenth of 1% of this line in the sand. On average, investors will endure a bear market about once in a decade. The internet has created access to information for retail investors lessening volatility.

- ***Corrections are short-lived:***

No one enjoys seeing red in their portfolio, but the good news about market corrections is they tend to be short-lived. Considering the previous 36 corrections mentioned above for the S&P 500, 22 of these, more than 60% of them, lasted less than 104 days. The average correction lasts about 4 months; albeit, that time horizon has become more compressed over the past decade.

- ***Corrections are driven by emotion:***

Regardless of the reason for any correction, you can almost always count on emotional investors and short-term traders driving the volatility. It's uncommon to see a lot of volatility when stocks are rising (the VIX is under 15), but volatility is very common when momentum picks up to the downside, especially with corrections being short-term events.

- ***Using margin during a correction is a terrible idea***

Because the downside moves in corrections can be so swift and violent, it's never a good idea to use margin while investing (i.e., borrowing money from your brokerage to increase your leverage). Although there are some instances where using margin makes sense, such as selling short, buying on margin can be a dangerous tool in a volatile or high VIX environment.

- ***Only short-term traders tend to be impacted***

Long-term investors don't head to the sidelines when a 10% drop occurs. The only folks who pay during corrections are emotionally driven short-term traders. An important and overlooked aspect of stock market corrections is they tend to impact short-term investors and day-traders the most.

- ***Corrections are a smart time to reassess your holdings***

Any time is a good time to sit down with Steven and I to reassess your investment holdings. We are willing to do this as often as you would like. Market corrections are a good time to do this. When evaluating your stock and fund holdings, what you're doing is determining if the reason you purchased a stock or fund in the first place still holds true. If your investment strategy hasn't changed, there's no

reason to sell. However, <u>if you want some protection from corrections on the downside, with stocks and ETF's, we can place sell stop orders on your holdings to protect you on the downside.</u>

- ***<u>Dividend and value stocks tend to outperform:</u>***

If you're interested in seeking out stocks that tend to outperform in a down-trending markets, consider dividend and value stocks. Value stocks have time-tested business models that aren't going to be impacted as severely by an economic slowdown. Plus, dividends help you offset any short-term paper losses. Value stocks tend to come into focus as interest rates rise and growth stocks deflate.

- ***<u>Long-term investing is the astute way to move forward:</u>***

Please remember that <u>time is on your side</u>. <u>Consider the 36 previous corrections of the S&P 500 mentioned earlier - all 36 were completely erased by a subsequent bull market rally. Although the stock market offers no guarantees, that's as close as you will come to one when investing</u>. In most instances, corrections were in the rearview mirror within months - not years. Investors who buy high-quality stocks and hang with them over the long run have achieved a very high probability of success.

We are concerned about this correction and are paying close attention to it. We will be watching the meeting this week between President Trump and Chinese President Xi Jinping in Argentina for clues of easing or escalation of tensions between the U.S. and China. The differences between the world's superpowers were on full display last weekend at the Asia-Pacific Economic Cooperation summit, resulting in their failure to agree on a joint communique for the first time in history. This drama created the market turmoil of last week. Let's hope both leaders are willing to find common ground. This will dictate what happens to this correction and the market as we close the books on 2018.

Please attend our annual Christmas Celebration December 16th at Eddie Merlot's of Polaris from 4:30pm-9:00pm

You may RSVP to Steven or Hunter by email or phone until December 11th: 614.901.3400