Bumpy Adjustments And How To Live Through Them

Saturday's With Jim

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Dear Friends,

Calm precedes storms and vice versa. Stock and bond investors had an outright balmy year in 2017. As well diversified long-term investors, we enjoyed last year's rally while knowing it would not last. We also know that the current choppiness, a bumpy market adjustment to uncertainty about how inflation and higher interest rates may affect stock values, will pass too. Here are some tips to increase emotional sanguinity in the current choppy (volatile) regime.

Never focus on your current account balance with reference to the highest point reached in the market cycle. Doing so will cause you to say "I lost $X" when in reality the market has just retraced to a prior point in its winding climb. If you want to focus on a market reference point, look at your account balances in March 2009, September 2011 or even February/March 2016.

Think of all life including your account as cyclical. Avoid extending a short-term direction to months or years ahead. As you can't see your destination from almost any point in a curving mountain road, the current direction is likely to be reversed many times before you reach your destination.

Dips of 10% or a bit more are common about once a year. Dips of 3% to 5% occur on average about three times a year. Dips of 20% or more occur about every five to ten years. This said, dips and crashes occur at higher levels than the prior similar dip or crash in the majority of cases.

Those of you making monthly periodic contributions, especially if you are under age 45, should rejoice when your account falls because your new contributions will buy shares of investments at a lower price than last month. Lower prices mean more shares of a stock or a fund. When prices recover, you will have more shares and more value in your account than if shares were not bought monthly at the then prevailing price.

It is said that stock markets move up on an escalator (gentle slope upward), while they decline in elevator fashion (move down almost in a straight line). While downward moves do tend to be steeper and shorter in duration than upward moves, experiencing them can cause angst and outright fear that the hard-won gains are about to permanently evaporate. We can adjust the stock/bond/cash mix for those of you who are driven to anguish and angst when your account drops, even for a few days to a couple of months.

Stock markets become volatile and choppy when uncertainty about future earnings flow increases to the extent that investors require re-rating lower or higher as the case may be. Most of the time, re-rating as a knee jerk reaction to uncertainty is reversed in coming weeks or months and the episode turns out to be nothing more than a squall before a prior trend reasserts. For your peace of mind, though, it's imperative to resolve your long-term investment goals with your "fear of falling." It will do you little good to arrive at the "finish line" wealthy but emotionally ragged.

Thank you for investing with us.