financial fitness

When Will The Market SETTLE DOWN?

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When will the market settle down?

When will the Dow, S&P 500, and Nasdaq Composite recover from their declines? Those two questions are no doubt on your mind as Wall Street proceeds through an unsettling February.

Skepticism is prevalent right now. The price of oil is currently below $30. Tech shares have slumped, bank shares have slumped. Investors are questioning whether central banks have made the right moves in the past few months. Unfortunately, skepticism has two cousins: pessimism and panic. The market is seeing more than a little of both.

Short-term volatility is part of equity investing.

The market may have a bad month, even a bad year that will test your patience. If you are nearing retirement age, reducing your exposure to risk at this moment makes sense, but remember that stocks can rebound quickly and remarkably from severe retreats.

As a recent *MarketWatch* article pointed out, the return of an all-stock portfolio from 1926-2015 averaged 9.9%, even with all the corrections and bear markets that occurred along the way. If a hypothetical investor put $100,000 in that all-stock portfolio and reinvested dividends for 30 years at that annual rate of return, he or she would end up with $1,879,971 off that initial investment. Along the way, there would be some pronounced volatility – since 1926, the stock market has been more than 500% as volatile as the bond market.1

When the stock market does settle down and begins to advance again, you want to be invested in equities to take advantage of the recovery.

You may have already put yourself in position to ride through and even capitalize on this market. If your portfolio is sufficiently diversified across asset classes, your losses may not be as bad as those of an individual deeply invested in equities. Even diversification within the stock market matters. From 2000-09, the S&P 500 lost an average of 0.19% a year while the MSCI Emerging Markets Index rose an average of 10.11% per year (including dividends). More or less the opposite has happened since 2010: the MSCI benchmark has retreated an average of 0.88% annually while the S&P has risen an average of 12.98% a year.2

In one interesting way, the market becomes less risky when shares fall.

Through dollar-cost averaging and other methods, you are able to buy lower instead of higher. A week, month, or even year of slumping stocks looks minor in light of the fact that you will be invested for decades. At some point soon, institutional investors will begin to capitalize on these sliding share prices and start buying. If the Fed decides against further rate hikes, then one possible headwind for equities would dissipate.

Yes, these are trying times.

It is worth remembering, however, that such times are the exception in Wall Street's long history and not the rule. While there are many things you could do, doing nothing might prove to be the best thing you could do.

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1 - marketwatch.com/story/enjoy-stock-market-volatility-because-it-can-quadruple-your-retirement-2015-10-08 [10/8/15]
2 - oregonlive.com/finance/index.ssf/2016/02/you_know_what_to_do_when_the_s.html [2/6/16]