

# REASONS NOT TO FEAR A STOCK MARKET CORRECTION

Fall 2018

## THE POWER OF HEALTHY MARKET CORRECTIONS

### CORRECTIONS HAPPEN

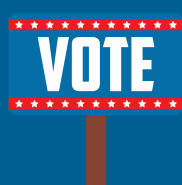


It may come as a surprise to some, but market corrections happen fairly often.

It's normal for the economy to naturally go through peaks and downfalls over time.

### WHAT CAUSES A CORRECTION?

Highs and lows in the market will always occur. Some common causes for a market correction are:

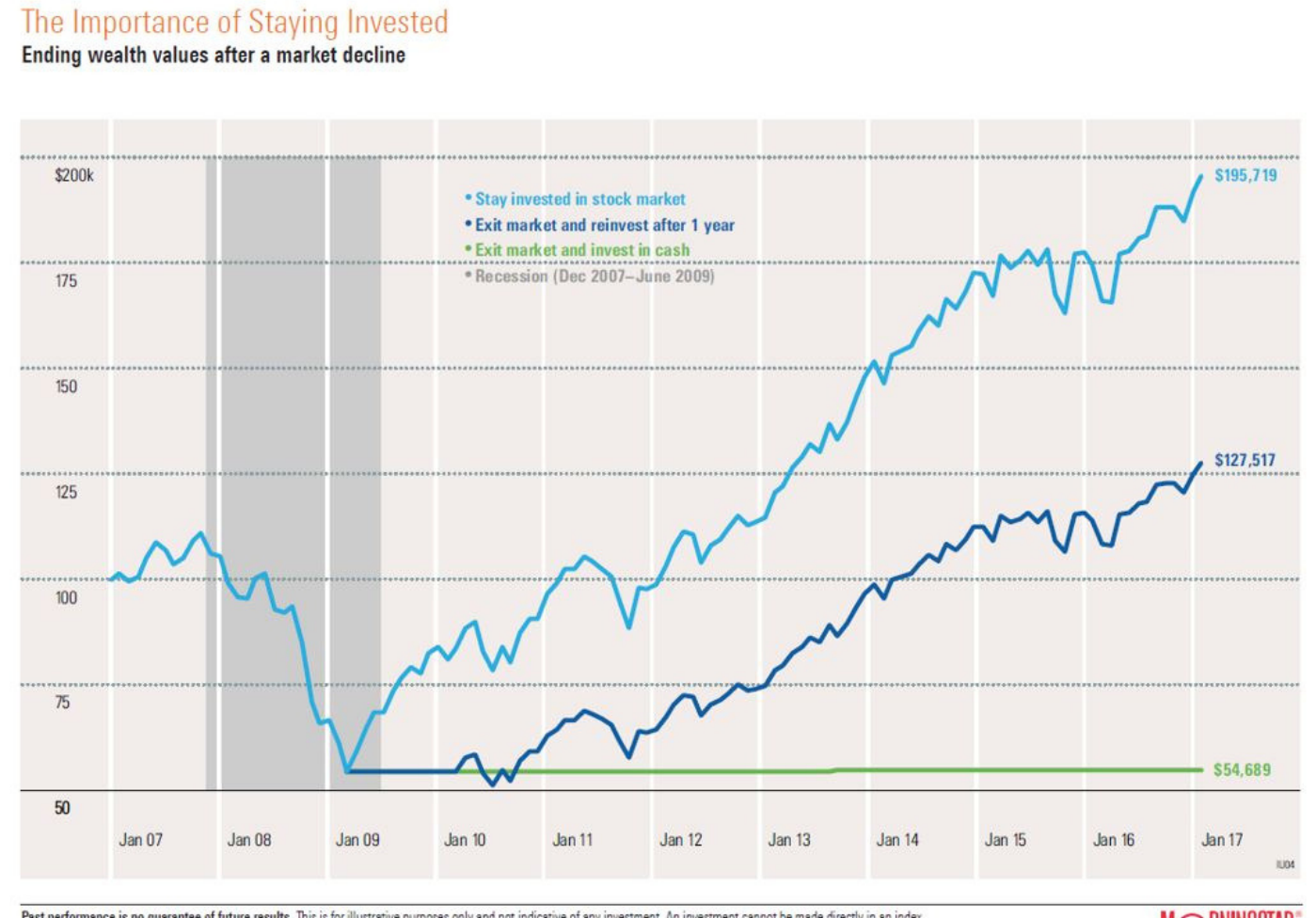


- Economic indicators
- Political and geo-political factors
- Valuations in various asset classes
- Environmental and weather factors
- "Disruptions" such as new technology
- Technical trading

By the final quarter of 2018, we have become long overdue for a market correction; such a correction is inevitable. We typically experience a correction once every 55 months (4.5 years); however, we have not had a meaningful correction - defined as a 20% drop in the market - in over 115 months (9.6 years), which is the longest run in history.

### IMPORTANCE OF REMAINING INVESTED

If you don't have any assets in the market, then there is no chance of gaining from market lows. Below is a chart from MorningStar that highlights the importance of staying invested in the market, even during a market decline.



This chart shows the growth of three different accounts from the market lows in 2009 through January 2017. The investor of Account A pulled all of his/her money out of the market and moved it to cash. The investor of Account B moved his/her funds to cash for one year and then reinvested the money into the market. The investor of Account C took no action and rode out the market correction.

By keeping his/her money invested, the owner of Account C earned \$141,030 more than the owner of Account A, who pulled everything out of the market, over this eight-year period.

Returns and principal invested in stocks are not guaranteed. Stocks have been more volatile than bonds or cash. Holding a portfolio of securities for the long term does not ensure a profitable outcome and investing in securities always involves risk of loss. About the data: Recession data is from the National Bureau of Economic Research (NBER). The market is represented by the Ibbotson® Large Company Stock Index. Cash is represented by the 30-day U.S. Treasury bill. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs.

### EMOTIONAL SIDE OF INVESTING



While it's normal for investors to get scared, frustrated, or upset about losing money in the market, these short-term emotions are not based on sound investment principles. When investing, it is important to stay calm. The end of the year is a great time to review your finances and identify any changes you want to make in your overall investment portfolio.

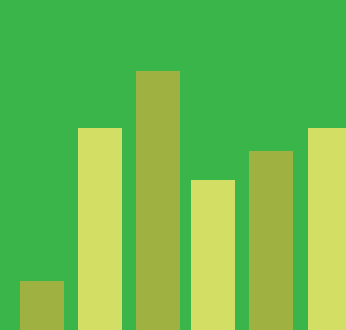
### NEXT STEPS

1. Know your timeline - when will you need funds? In 5 years, 10 years, 20 years? Determine how many of the market ups and downs you are willing to stomach.



2. Make sure you are invested in the right mix of stocks, bonds, and cash for your specific needs.

3. Don't worry if and when a market correction happens - you will be well prepared if you complete steps 1 and 2!



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