Johnston Investment Counsel
LIFE THE WAY YOU PLANNED IT.

Has a Correction Started? Does it Matter?

For the first time since 2010, January stock market returns were negative (around -3.5%). During the course of the month, investors experienced heightened volatility as several days had returns of +/- 1%. This combination makes many investors wonder if we are now in the early stages of a new bear market or, if the past five years should be considered an interim market rally inside of a longer-term bear market.

The answer, of course, is that nobody knows -- not the Fed economists, not the fund managers, not me, and not all the "talking heads". What we **do** know is that it is often a mistake to sell into market downturns, which unfortunately happens more frequently than we realize.

Many may be surprised that in the summer of 2011, the markets pulled back by almost 20% -- nearly twice the traditional definition of a "market correction". But, since then, the market has come roaring back and rewarded patient investors. There were corrections in the spring of 2010 (-16%), and the spring of 2012 (-10%), but almost nobody remembers these sizable bumps on the way to new market highs. Indeed, many probably look back at the time since March, 2009 as one long largely-uninterrupted bull market.

Bigger picture, since 1945, the market has experienced 27 corrections of 10% or more, and 12 bear markets where U.S. equities lost at least 20% of their value. The average decline was 13.3% over the course of 71 trading days. Perhaps the one statistic that really matters is that after every one of these pullbacks, the markets returned to record new highs. Most of the time, the turnarounds were an unexpected surprise to investors. The market often seems to move contrary to investors expectations.

We may get a full 10% correction or even a full bearish period out of these negative trading days, and we may not. But history suggests an important lesson: if we do get a correction or a bear market, we may not remember it a few years later if the markets recover as it has in the past. The people who lose money in the long term are not those who endure a painful market downturn, but the people who panic and sell when the market turns down.

a 2714 N. Knoxville
Peoria, Illinois 61604
w jicinvest.com
e info@jicinvest.com
t 309.674.3330
tf 877.848.3330
f 888.301.0514