Johnston Investment Counsel
LIFE THE WAY YOU PLANNED IT.

Don't Fear The Correction

At of the end of June, the Standard & Poors 500 index has completed 32 full months without a correction of 10% or more. We are living in a remarkably long bull market; the average time span without a full-blown correction is just 18 months. Since the last correction in September of 2011, the S&P 500 has gained 75%, approaching the remarkable 100% advance that began in March of 2003 and lasted until the market peaked in October of 2007.

Today, as various stock market indices are at or near record highs, it may be a good time to prepare for that inevitable correction down the road. It may take the market down 10% or, worse, reach the technical definition of a full market correction, which is a downward move of 20% or more.

Prepare how? First, it helps to recognize that every market has pullbacks, and that these are a normal part of stock market behavior. Since the Great Recession lows in March 2009, the S&P index has experienced nine different corrections, ranging in magnitude from 6% to more than 21%.

Second, it helps to recognize that these pullbacks are almost totally unpredictable. Knowing there will be a pullback doesn't tell us when or help us maximize returns. If we take money out of the market today, on the certainty that a pullback is coming, we are just as likely to miss another year or two of upward movements as we are of sidestepping an immediate downturn. Nor do we know how long the downturn will last. In short, the investor has to be correct twice – getting the timing correct on both the down and up moves. The timing decision in combination with trading costs and taxes, significantly reduces the investors long-term ability to add value.

Third, recognize now that the next unpredictable correction will look blindingly obvious in hindsight. It will seem like everybody but you knew in advance what was coming and when. In reality, what you'll be hearing is reporters quoting the same few people over and over again, people who confidently predicted the downturn and turned out to be right. Look a bit more deeply than the reporters do, and you'll find that this small number of people had been predicting a market correction for many years.

Finally, realize that *inaction is actually taking strong and unusual action*. People who simply kept their money in stocks during each of the market downturns ended up seeing the indices reach new highs once the correction had run its course. Strong long-term investors benefit from the incremental daily, weekly, monthly efforts of millions of workers who come into the offices, factories and warehouses and build the value of their companies.

People will change their opinions about what stocks are worth, but in general, over time, the value of most companies will rise to the extent that those workers add value during their workdays. When people lose faith in that value, as they will when the next correction hits, it will put stocks on sale and give the rest of us an opportunity to buy in at lower prices--if we have the courage to separate ourselves from the herd.

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