

Enduring Rainy Market Days
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As everyone knows, weather in North Alabama is completely unpredictable. In the last month alone we've needed scarves, sunscreen, raincoats and more just to go outside. Truth is, some things in life are truly unpredictable. And I know that there are certainly costs to bad weather: school delays, traffic, the frustration of wearing mittens in April. But this is a reality, and it doesn't mean we spend our entire life inside. We still brave the weather and the rain always stops eventually. I also know that feeling of seeing it rain on your family picnic is similar to the feeling of watching your returns fall. Which brings me to the main point of this blog post: enduring market volatility. I know many of you have heard me say it a dozen times, but in times of market volatility, it's important to stay rational because the market generally lands back on it's feet.

Volatility Information

- **Average Intra-Year Declines:** Since 1980, the S&P 500 has experienced an average correction each year of approximately 14%. But in 2017, the markets were unusually calm, fluctuating only 3%.ⁱ Before this recent decline, the S&P had gone more than 400 days without losing over 5%—its longest span since the 1950s.ⁱⁱ

Takeaway: Markets fluctuate, and the recent lack of volatility is what's truly unusual.

- **Percentages vs. Points:** Many news articles mention that the Dow's 1175-point drop on February 6 was its highest decline in history.ⁱⁱⁱ While this statement may be true, it leaves out a key detail: The higher an index goes, the smaller a percentage of its total that each point represents. In other words, 1175 points doesn't have the same impact at 25,000 that it does at 10,000.

Takeaway: Focus on percentages not points to gain a clearer view of market performance.

- **Recovery From Bad Days:** The S&P 500 fell 4.1% on February 5, but within one day, the index regained 1.7%.^{iv} If you analyze the S&P 500's 15 worst days—where the index lost an average of 8.16%—stocks were still in negative territory 1 day later. But, in 13 instances, stocks were back up within a year by about 21%; they were all in positive territory 5 years later.^v

Takeaway: Even when stocks lose more ground than they just did, they can recover.

Remembering the Last Market Correction

In August 2011, the S&P 500 lost 6.66% in one day. At that time, the European debt crisis was in full swing, the U.S. had lost its AAA credit rating, and the financial sector was reeling. Volatility measures indicated that many investors were becoming worried.^{vi}

Facing that situation, impulses to leave the market and avoid further losses could have arisen. However, staying invested paid off. Only a year later, the S&P 500 had gained over 25%.^{vii}

Knowing Where to Go From Here Over short periods of time, the market trades on fear, anxiety, greed, and emotion. Over the long term, however, economic fundamentals generally drive the markets.

You may be thinking to yourself that you won't be too disappointed by volatility, but like stormy weather it can put a damper on your day. It is never a good feeling to watch the markets fall. But remember, volatility comes and goes just like rainy weather.

As always, we are here to provide you with clarity, perspective, and support during every market environment. Thank you for the confidence you place in our abilities. We consider it a privilege to be good stewards of the assets you entrust to our care.

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Resources:

i. <https://www.reuters.com/article/us-global-markets-volatility/explainer-investors-burned-as-bets-on-low->

ii <https://www.reuters.com/article/us-global-markets-volatility/explainer-investors-burned-as-bets-on-low-market-volatility-implode-idUSKBN1FQ2GL>

iii <http://www.cnn.com/2018/02/06/us/five-things-february-6-trnd/index.html>

iv <https://www.cnbc.com/2018/02/05/fidelity-says-it-saw-no-panic-among-its-customers-and-more-buying-than-selling-during-the-plunge.html>

<https://www.cnbc.com/2018/02/06/us-stock-futures-dow-data-earnings-market-sell-off-and-politics-on-the-agenda.html>

v First Trust, S&P 500 Performance After Its Worst Days, 6/17

<https://www.ftportfolios.com/Common/ContentFileLoader.aspx?ContentGUID=56df6fdf-721a-4859-bddd-b024a83ea09c>

vi First Trust, S&P 500 Performance After Its Worst Days, 6/17

http://money.cnn.com/2011/08/10/markets/markets_newyork/index.htm?iid=EL

vii First Trust, S&P 500 Performance After Its Worst Days, 6/17

<https://www.ftportfolios.com/Common/ContentFileLoader.aspx?ContentGUID=56df6fdf-721a-4859-bddd-b024a83ea09c>