SIMMONS ASSET MANAGEMENT

Strategic Investing.

Sink or Swim

Let's say we all boarded a boat on a journey to an amazing destination. Before we started the journey, we were informed there would be rough seas and the trip challenging, but the end result was worth all the trouble. After all, the ship is a sound vessel capable of handling stormy weather. Once the trip begins, there are some nice days with tailwinds and others with headwinds that either speed up or slow down the journey. Some days there is no wind at all, and we make no progress.

Occasionally, a big storm comes along and the boat gets shaky and the crew gets nervous. There may be some passengers who can't handle the rocking of the boat. They forget about the payoff of the final destination, the sturdiness of the boat and the experience of the captain. Instead, they focus on how bad the situation is and constantly listen to the weather reports coming across the loudspeaker.

Ultimately, some of these passengers give up and want off the boat even though there is no better alternative than to stay the course. They request to be set adrift in a small lifeboat, certain to perish.

This is exactly what happens when people sell out during a market correction. Because money is such an emotional thing to us all, some people are unable to make a logical decision when things get rocky. They forget about the big picture and focus on negative headlines, their fears and advice from friends and neighbors who are not professionals.

Eventually, the storm does pass, the clouds part and the sun comes out. However, there's no way someone will be able to enjoy the amazing destination if they've "jumped ship." These little storms are nothing more than temporary interruptions of the permanent uptrend – and weathering them should be part of your long-term plan.

Did You Pass the Market Test?

The market has taken a heavy drop in the past couple weeks, with the S&P 500 Index falling somewhere in the vicinity of 15-20 percent of its all-time high. Last week we sent an email blast to our clients and close associates explaining why we have been anticipating some much-needed market fluctuation. If you did not receive the email and would like to receive these periodic updates from us, please shoot me a message and I'll be happy to add you to the list.

Consequently, that email ended up saving several people millions of dollars. I spoke with a number of individuals who were a bit shaken by the volatility, but did NOT "pull the trigger" because they read that email. Taking the time to read a couple of paragraphs kept those people from making a big mistake. Once it was all added up, it turned out to be a substantial amount of money that was saved.

Listening to advice from a professional and gaining some perspective can go a long way. I congratulate my clients who remained undeterred during last week's events. I did not have a single client "jump ship" and am extremely proud of their resilience. Unfortunately, that cannot be said about everyone. I still heard plenty of stories of people panicking and selling at the bottom of last week's temporary price drops.

That's not to say I don't have clients who worry about the market. It is perfectly normal to be concerned, and I am always available to discuss the state of the market and how it affects them. It's one thing to talk things through, but quite another to outright panic and make a disastrous decision. Even my best clients aren't immune to this, but my biggest clients didn't get that way by panicking. They put their trust in me and listened to the advice of a professional.

The Silver Lining

There are plenty of reasons why the market took a hit — and the media has not hesitated to list them. Sure, there are weaknesses all around us, but even during times when the market is up, there are countless negative data points. The real reason the market went down is because it was due, simple as that. We were due for a pullback and have been for quite some time. On average, the market has a temporary decline of 14.2 percent each year. Some years it drops more, and some years it drops less. Can you take a guess when we last had a drop in the market? It was in 2011, nearly four years ago. The hard truth is we've forgotten how to suffer. This isn't a free ride, and there are going to be times when we're at the mercy of the market. The fact remains that we had gone nearly 1,500 days without a 10 percent correction. It was time.

On a more positive note, the news is not all bad. Corporate earnings, household net worth, consumer debt, financial banking systems, retail sales, home prices and sales, building permits, corporate buybacks and acquisitions are all through the roof. For any headline that points to a negative, keep in mind there are plenty of underreported headlines with good news.

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The market does not move linearly and has normal ebbs and flows, rises and falls. Fear and greed tend to control the market in the short-term, but long-term it continues to follow corporate growth rates. The question is not if and when a drop will happen, but rather how you will react to it. People seem to believe that volatility and risk are the same thing, but they are not. The risk is never the actual volatility, but how one reacts to that volatility. What is volatility then? Well, it's quite simply return. Return and volatility are the same thing. If you suppress volatility, you will also suppress return. You cannot have one without the other.

The recent volatility in the market should be welcomed by us all, despite our age and stage in the retirement spectrum. Major market drops, such as the one we experienced in 2007-2008, are generational market bottoms. They don't happen all the time. They occur at times of peak perception, when things like real estate and stock prices are priced higher than their book value, when nearly everyone believes the market will never go down and the only perceived fear is being "late to the party." When the market does go down, it's nothing more than a buying opportunity. Right now is a huge positive window because we are far from high levels of greed and peak perception. Our perspective is that the chance of experiencing a major drop in the market is extremely slim.

Prosperity Ahead

There are plenty of people asking questions right now about why the market has dropped. Are they asking the right questions? As an experienced advisor, I can tell you the questions you should be asking are about the long-term. These questions have to deal with funding a three-decade retirement and providing a sufficient income to account for the rising cost of goods and services — not a temporary fluctuation in the market.

Drops like this one serve as building blocks that set us up for good times ahead. You just have to weather the storm to be able to enjoy prosperous times to come. If you've sold out and quit, then you won't be on the journey during those good times. And you can't fund a multi-decade retirement on cash and CDs.

I am by no means predicting the next move in the market nor am I stating that it will immediately move up from here. I can't predict that, and no one else can either. All financial success comes from planning. A lot of financial failure comes from reacting to the market. At this point, we have to trust our plan and wait out the storm.

While intense, these pullbacks are nothing more than a test to evaluate how capable you are at handling necessary market fluctuations. These are the times when it is necessary to dig a little deeper and keep chipping away so you are able to enjoy the prosperous times that will subsequently come. Those who persevere are the ones who will eventually prosper. Did you pass the test?

Helping you become a better investor!

Mark Simmons
President