StraightTalk

PROVIDED BY STRAIGHTLINE FINANCIAL OF RAYMOND JAMES

VOLUME 3 JUNE 2023

ALFRED L. STRATFORD, III
Chartered Retirement Planning Counselor (CRPC®)
Managing Director

Are You Ready For a 15% Market Correction?

That's the question for today, and every day. I am not asking this to stoke fears like the nattering nabobs of negativism which make up today's news media. Instead, I ask this important question in the sense of emotional preparedness, somewhat akin to the lifeboat drill one must undergo at the start of a cruise. If the average peak-to-trough decline each year has been 14% over the last 50 years (and it has, according to Standard & Poor's research) then we all should be prepared, and therefore not surprised, when those pullbacks occur. It goes without saying that ALL such previous declines proved temporary, and the market not only recovered but moved higher in time. Of course, history is not a guarantee of any future outcome, but it is a really reliable roadmap. Over time, there are more people, more companies, more innovation, more growth, and the long-term direction is up, not down.

However, that "long-term" is made up of lots of short-term periods that must be navigated to have any success. And, since the onset of Covid, it seems like almost every week has presented a new short-term problem, or crisis, which the "news" has dutifully highlighted. Lesser publicized, in my opinion, has been our remarkably resilient economy, which has navigated every short-term obstacle thrown at it with apparent ease. Whether it be the closure of the economy, the multiple policy edicts requiring masks, physical distancing, and limiting of patrons in establishments, or the effects of over-stimulus inflating the price on everything purchased (and requisite increases in interest rates on everything financed) – this economy continues to drive forward.

Remember, what is happening at any given time in the markets, our economy, or news cycle is never the issue. It is how you react (or choose not to react) that is the determining factor of success.

Did you know that ocean water 30,000 feet beneath the surface is just as transparent at that same water one inch below the surface? The reason the water looks murky at greater depths has to do with the amount of sunlight, not the number of particles floating about. Using this analogy, the headlines about the crisis du jour always serve to make the water murky, and it becomes my job to provide enough sunlight to make the water look clear.

In early April, headlines led the markets to be worried about earnings, which came in better than expected. One month later, in early May, headline fears turned to the Fed and rate hikes, which now appear on pause. Later in May, headlines screamed about recession fears (again), but the jobs report shot the lights out to the upside. Late last month, scary headlines about inflation remaining stubbornly high caused market gyrations, and then we got the first "under 5%" number of this inflationary cycle. More importantly, one third of the components that make up the inflation index are now in deflation. This means their month over month prices are not just slowing down, *they are falling.* And, in the last two weeks, one would have to be in a total media blackout to have missed the caterwauling about the "debt ceiling default crisis." Given that the debt ceiling has been increased 102 times since WWII – this time is not different, and they will make a deal. So much for that scary headline – on to the next one!

Even if the above list had proven to be a bit more accurate in the short run, this is not why we invest for long-term accretion of our capital. Today's news is always the enemy of long-term investing success; it is the ability to leave our investment intact over time that allows the miracle of compounding to occur. Moving in and out of the great companies of America and the world based on how you *feel* about headlines / inflation / the Fed / economy / politics is

simply market timing by another name, and it does not work. Moving in and out of investments interrupts compounding, and you cannot make up the lost time in that miraculous process. You may have seen statistics showing how missing the 10 best days in the stock market cuts long-term investor returns in half. A recent article I read in Barron's highlights the wonders of long term compounding even more succinctly. That article pointed out that Warren Buffet's net worth is estimated to be $115 billion, *but 90% of that net worth was generated after he turned 65!* This is not due to his finding a late-career investment that skyrocketed in value, it is simply how compounding works – the last doubling is the big one. The earlier you start, the more powerful this force, and the larger that last double of your portfolio.

Well, none of us can turn back the clock to have started investing as teenagers, but we can avoid "making moves" in the portfolio based on gut feel, intuition, or emotions, and instead, allow that compounding miracle to work in our favor.

The stock market is perfectly capable of dropping precipitously at any time. In fact, it has been cut in half two times in the last two decades, and three times since 1973. If you were alive on New Year's Day that year, you have lived through three 50% off sales in the stock market, during which news headlines declared all hope to be lost. And it may have seemed like it in the moment! At the beginning of the 1973-74 market rout, the S&P 500 was 826, and dropped to a low of 400. In March of 2000, that index hit 1,498 before dropping to 829 in February of 2003. And that same index was only back to 1,478 in December of 2007, before setting a generational low of 676 in March of 2009.

All of those were gut wrenching, soul searching declines – that, when viewed in the rear view mirror, were innately survivable. The fact that the S&P 500 stands at 4,200 as I write this, makes the reminiscing far easier. The reason for this walk through history is simply to point out that prices reflected the worst case scenario during each of those environments*, but did not reflect the long term potential*, which has by and large come true. Certainly, more than a few companies in that index were bought at fire sale prices, merged out of necessity, or ceased operating altogether, but new companies were born and were added to that index. Some of those original index companies muddled through, surviving three different difficult economic environments. And still others prospered beyond belief, defying gravity with their rise in value.

Therein lie the two important lessons in successful investing – ignore the news of the day to allow for the miracle of compounding, and diversify away the risk that any one company may not endure.

The point of my question in this newsletter's title is not that I believe the market is setting up for a major decline, but quite the opposite. Market drops don't tend to occur when Wall Street analysts are underweight holding stocks, and the investing public is in cash (currently over $5 trillion.) However, we all must remain emotionally prepared for a price decline that can occur at any time, in any environment, for any reason.

History shows there have been three major drivers of innovation since World War II; the postwar boom as the economy shifted back to domestic production, the 1980s with the introduction of the personal computer, and the 1990s with the advent of the Internet. Each time, productivity gains increased 2-3% per year. In my opinion, the fourth such boom is upon us, with large language models (A.I.) and cloud computing, which will drive productivity in this next cycle. What happened in each of the decades of the 50s, 80s, and 90s could happen again this coming decade. But only if we sit through the daily deluge of dubious news stories.

At the end of the day, we must hold these two contradictory ideas in our heads – the market is capable of dropping by half at any moment, and at the same time, the great companies of America and the world remain, by far, the safest investment for protecting our lifetime accumulations from inflation and taxes. We just have to let the compounding occur.

StraightLine FINANCIAL OF RAYMOND JAMES®

804.225.1143 | straightlinefinancial.com | 5820 Patterson Avenue, Suite 100 | Richmond, VA 23226

StraightTalk is published by Al Stratford exclusively for his clients. The opinions expressed in this newsletter are those of the author and are not necessarily those of Raymond James & Associates, Inc. Information has been obtained from sources considered reliable, but its accuracy and completeness are not guaranteed. Past performance is no guarantee of future success. All information provided is of a general nature. Diversification and asset allocation do not ensure a profit or protect against a loss. No one should act upon such information without professional advice from their tax advisor. Investing always involves risk and you may incur a profit or loss. No investment strategy can guarantee success. The S&P 500 is an unmanaged index of 500 widely held stocks. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stocks of companies maintained and reviewed by the editors of The Wall Street Journal. *One cannot directly invest in an index.*
© 2022 Raymond James & Associates, Inc., member New York Stock Exchange/SIPC.