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Of Corrections, Recessions, Bear Markets And Other Distractions

TUNE IN TO CNBC, OR FOX BUSINESS NETWORK, AND LEAVE IT on for an entire eight hour day. (I dare you.)

I can pretty much guarantee you that sometime during those eight hours, one of their numberless, ubiquitous talking heads—of whom you've never heard before and may never hear again—will predict an imminent stock market correction.

He/she will not define the term "correction," nor say where the correction will begin, nor predict where it will end. He/she will simply say, "We're overdue for a correction, because of this, that and the other warning signs." Then there will be a commercial for gold coins, a prescription drug for a malady you do not have, or adult diapers. Or all three.

At some other point in the eight hours, another no-name talking head will predict a **recession**. Once more: no definition, no estimate of an onset, no mention of a bottom. Cut to commercial.

Finally, well within the eight hours, a third far-seeing talking head will call for a **bear market**. (Hasn't been one since the bottom in 2009; market is "overvalued;" Fed is raising rates.) Once again: no definition, no projected peak, no projected trough. Now this commercial message.

What are you—the patient, disciplined, goal-focused, long-term investor—to do? What do you need to know—heck, what can you know—in order to deal intelligently with one or more of these forecast market/economic setbacks? I will suggest that there are six key things you can, and indeed must, know. To wit:

- All the **stock market corrections** in your lifetime—and long before—have been temporary. So have all the economic **recessions**, and so have all the **bear markets** in stocks. They have all been temporary setbacks, and each has given way in time to the resumption of a major long-term uptrend.

- During the 71 years 1946-2016, there were 57 stock market **corrections**, which are usually defined as declines in the S&P 500 Index of ten percent or more on a closing basis. That's an average of about one every fifteen months.

- During the same period, there have been eleven economic **recess**-

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-ions, usually defined as a decline in U.S. GDP lasting for at least two calendar quarters. *That's an average of about one every six and a half years.* The average time the economy was in decline during these recessions was 11 months; the average contraction was 2.3% of GDP. (Another way of looking at this is to consider that there were 852 months in the 71 years under discussion, and that the economy was in recession for 121 of them, or 14%. The other 86% of the time, the economy was growing, as indeed it is at the moment.)

• During this time, there have been (by my count) 14 **bear markets** in stocks, usually defined as a decline in the Index of 20% or more on a closing basis. *That's an average of about one every five years.* Please note, however, that I include in my count three declines of 19% and change, just because they ***felt*** like real bear markets. I must ask you to humor me on this.

• During these 71 years, when stocks were **correcting** 57 times, and experiencing 14 **bear markets,** the S&P 500 Index went from 15 to 2,240, an increase of about 150 times. (The dividend, not that you asked, went from seventy-one cents to $45, up about 65 times.)

• During the same 71 years, while the economy was experiencing 11 **recessions**, real (inflation-adjusted) U.S. Gross Domestic Product went from about $2 trillion to nearly $17 trillion. That's a multiple of more than 8 times in a country whose population grew less than two and a half times, so *per capita* real GDP growth has been… pretty darn terrific.

What ought you to infer from this tsunami of data? I'll leave that question to you and the financial advisor who sent you this little essay, to explore at your leisure.

What ***I*** infer from it is that, lo these 71 years past, an equity investor who stayed focused on the long-term trends—the 86% of the time the economy was expanding, for example—probably did pretty well, if not very well. But the investor who got panicked over one of the temporary declines—in the economy, in stock prices—probably did…a whole lot less well.

You can't change (or control, or predict, or time) the economy or the markets. ***But at any moment, you can change what you choose to focus on.*** And over time, the decisive variable in your lifetime investment returns is very likely to be your focus.

(Data above concerning the price and dividends of the S&P 500 come from—you guessed it—S&P. Recession data come from the National Bureau of Economic Research, the official arbiter of such things. Population data come from—right again—the U.S. Census Bureau, a government agency. GDP data come from the U.S. Bureau of Economic Analysis, another government agency. As the late, lamented Casey Stengel always said, "You could look it up.")

All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly.

Financial Resilience: Part 3 of 3

Resilience (noun): the capacity to recover quickly from difficulties; toughness.

In the previous two parts of this Series, I outlined various facets of **Individual** and **Family** financial resilience. This third and final installment will close the loop by illustrating how these households organize and interact to build **Community Resilience**.

At this point, the effects of globalization and financialization are apparent in many of the smaller and more rural communities. Over the course of the past century, capital has become evermore consolidated in cities through large financial institutions, major national corporations, and the effects of compounding interest.

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As a result, local economies have become increasingly reflective of national economy. As evidenced during the financial crisis of 2008, a major market event can have a dramatic impact on even the smallest businesses.

What then can we do as individuals and families to help protect the communities in which we live?

In his book *Local Dollars, Local Sense*, Michael Shuman outlines three important rules to support the prosperity of a local economy:

1. Maximize the percentage of jobs in your local community that exist in businesses that are locally owned.
2. Maximize the diversity of the businesses in your community, so that your economy is as self-reliant and as resilient as possible.
3. Prioritize spreading and replicating local business models with outstanding labor and environmental practices.

The bottom line is that if we want a thriving community, we must help build one with our finances.

Buying local products and produce, supporting local existing businesses, and encouraging community entrepreneurs can be marginally more expensive, but the benefits to the community cannot be ignored.

Being able to provide local sources of food, education, transportation, and manufacturing helps protect communities from national financial challenges.

Here are some resources on building a local, sustainable economy in Grand Rapids:

- *Local Dollars, Local Sense* by Michael Shuman
- *Locavesting* by Amy Cortes
- *Slow Money* by Woody Tashe
- *Small is Beautiful* by E.F. Schumacher

-Geoffrey C. Sadek, CFP®

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual.

Argus Happenings

Chris Engle celebrated the marriage of his daughter Rachel on July 22nd.

Our Client Relations Manager, Crystal Schneider, welcomed a baby girl on July 24.

Our Client Services Manager, Lisa, celebrated her son Connor's 1st birthday on August 5th.

Social Security Tip

Some people have to pay federal income taxes on their Social Security benefits. This usually happens only if you have other substantial income (such as wages, self-employment, interest, dividends and other taxable income that must be reported on your tax return) in addition to your benefits.

No one pays federal income tax on more than 85 percent of his or her Social Security benefits based on Internal Revenue Service (IRS) rules.

For additional information, you can visit: **www.ssa.gov/planners/taxes.html**

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Four of Michigan's Most Dazzling Fall Color Drives

St. Ignace to Naubinway (U.S. 2) - Travel time: 45 minutes
This route skirts the narrow northern tip of Lake Michigan, curving along wild, vacant stretches of sandy beach and through the southern end of Sault Ste. Marie State Forest.

The Tunnel of Trees (M-119) - Travel time: 47 minutes
One of Michigan's prettiest drives, this road runs along a high Lake Michigan bluff and frequently dips beneath a canopy of interlacing branches.

Newberry to Paradise (M-123) - Travel time: 40 minutes
This stretch of Upper Peninsula roadway winds through the Newberry State Forest Area and Tahquamenon Falls State Park before ending in Paradise at the Shores of Lake Superior.

Copper Country Trail National Byway - Travel time: 2 hours
This byway covers the length of U.S. 41, heading straight up Keweenaw Peninsula through Michigan's wildly scenic and historic Copper Country.

For even more fall color drives, head to:
www.mlive.com/travel/index.ssf/2016/10/michigans_best_scenic_fall_dri.html

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