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Wollman Wealth Designs

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Probability of Market Decline…

Since December 1926, at the beginning of any one calendar year, the probability of:

- Any market loss year-over-year is 25%.
- Loss > 10% is 13.2%
- Loss > 20% is 6.1%
- Loss > 30% is 3.1%
- Loss > 40% is 1.1%
- Loss > 50% is 0.5%

(1) Richard Bernstein Advisors, LLC December 2017

Often investors are concerned with market volatility and short-term losses. This is a natural human bias to be more concerned with loss than potential gains. In the textbooks, this is referred to as the endowment affect…. People are highly motivated to keep what they already have.

Truth is ….. large market losses are rare….. if you are willing to look at a calendar year. **So if you are concerned of a repeat of 2008, the chance of it happening in 2018 or any year is 0.5% --- that is one-half of one percent. ***

However, if your focus is on **"any and every negative downward movement"** allow me to offer some additional information. Since 1981, every year has experienced a mid-year market decline. **If you are concerned with any and every decline, I can confidently tell you that you will not be disappointed and have much to be concerned about.** The average mid-year market decline since 1981 has been 13%. Fourteen of those years had a greater than average market decline and in twenty-three years the decline was less than the average. (2)

* Past performance is not an indication or guarantee of future results.

Even though the average mid-year declines were 13%, the annualized return year-over-year has averaged +12.8% since 1981. The question is: Are you more worried of temporary lower values during the year? Or what the account is worth at the end of the year? Or accomplishing your financial goals?

Truisms

- Even though mid-year market declines average 13%, they are temporary.
- Every five or six years, that mid-year decline is double the 13%...five times in thirty-seven years.
- In every case, going back to the beginning of time, after the decline, markets have resumed their permanent advance.

* *Historic returns are not guaranteed nor implied. Yes, it is always possible it could be "different this time." However, it never has been….yet it is always possible. One cannot predict nor guarantee what the future may bring.*

- The greatest challenge to successful investing is not intellectual or analytical but temperamental.

* If you cannot stand to watch your stocks go down 14% …don't invest in stocks.
* However, if your portfolio is 60% stocks and 40% bonds, then a 14% decline in stocks means an 8.5% decline in your entire portfolio if you assume your bonds/cash don't go up or down.

Remember, year-over-year market declines in stocks of greater than 10% have occurred thirteen percent of the time ….. so just over one in ten years. (1)

What Your Advisor Cannot Do

- Cannot know (guess) when or at what level the market will peak.
- Cannot say (guess) when or at what level a market correction will end.

What Your Advisor Better Know

- That he / she is not smart enough to predict short-term market moves.
- He / she will inflict financial harm upon you by thinking they are smarter than anyone else.
- The cost of getting out and then back into the markets is great…..because getting out as markets advance (fearing a decline) or not being invested when markets reverse course (because you got out when things got better) is a dangerous game fraught with multiple opportunities to guess wrong.

What is More Important?

- Short-term market gains?
- Avoiding temporary declines in your portfolio value?
- Accomplishing your financial objectives?

If your goals don't change, then don't change how you invest.

Your Financial Plan should drive your Portfolio. The plan dictates your Investment Policy Statement. Market / economic circumstances should not dictate portfolio changes. Your portfolio serves your plan.

All of this being said, it is ok to feel the fear. Yes, it is human nature to be fearful and consider running at the first sign of danger. However, we don't live in caves and need to run from enemies that will kill us or animals that will eat us. We are managing our financial future. When managing your financial future it is usually NOT a good idea to give into the fear. Experiencing a fear-based response is different from acting upon it. When you feel the fear, the tightness in your belly, the sleepless night, call your advisor.

(1) http://www.rbadvisors.com/images/pdfs/Some_thoughts_on_2018.pdf

(2) Oppenheimer Compelling Wealth Management Conversations 2018. P.15

Fred Wollman earned his Certified Financial Planner "CFP®" professional credential in 1984 and the Master Planner Advanced Studies "MPAS®" designation in 2015. He holds securities registrations 7, 63 and 24. He is registered in California, Arizona, South Dakota, Colorado, Minnesota, Texas, Virginia, Washington, Oregon, Florida, Tennessee and Pennsylvania in addition to holding a California life and disability insurance license. From 1987 through 1990 Fred taught the CFP classes to aspiring financial professionals at San Diego State University.

He is on the board of the Valley Center Trails Association, ECOLife Conservation, and the Hidden Valley Kiwanis Club.

Fred and his wife of thirty-six years, Kathy, live in Valley Center, CA with two cats, a dog and two horses.

Fred spends his down time relaxing with yoga, tai chi, riding horses and when he can get really away, backpacking the Anza Borrego Desert, Mt. San Jacinto or the California Sierra Nevada Mountains .