

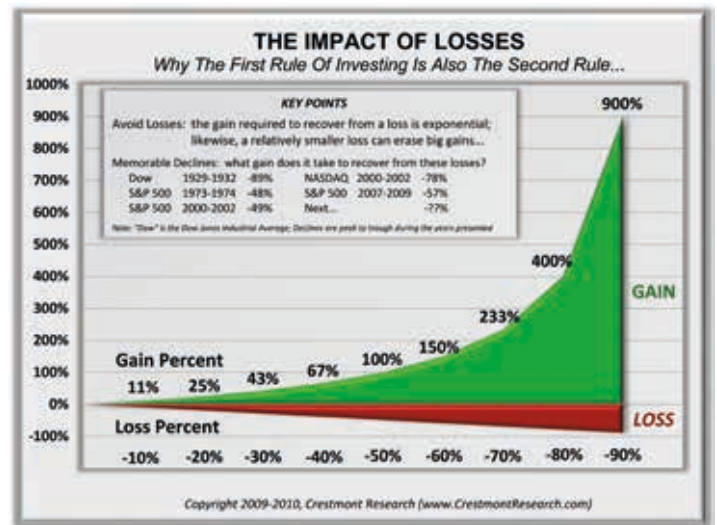
Financial fitness

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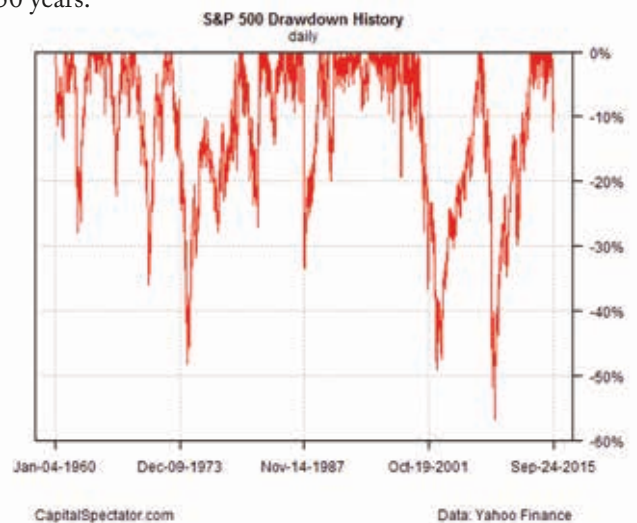
How To Measure Stock Market Pain: INTRODUCING "DRAWDOWN"

Have you ever had a "painful" experience in the stock market? Perhaps you owned tech stocks at the dawn of the new millennium. As The Impact of Losses chart at the right shows, the tech-heavy NASDAQ fell 78% in 2000-02. Or maybe you held stocks during the Great Recession of 2007-09, when the S&P 500 fell 57% from peak to trough.

We call these big pain points "drawdowns". A drawdown measures the largest loss, from high to low. It's easy to calculate. Let's say your account showed a high value of \$2.0 million on your November 2007 statement. In February of 2009, your statement showed the account was then worth only \$1.0 million. That's a 50% drawdown.



The chart below shows the drawdowns of the S&P 500 for the last 50 years.



Measuring the drawdown is only the beginning. You then want to calculate what it would take to recoup your losses after such a drawdown. In the example above where the account dropped from \$2.0 million to \$1.0 million, we need to know what it would take to get back to the \$2.0 million level. That's simple – it would take a \$1.0 million gain. From a starting value (after the drawdown) of \$1.0 million, that translates into needing a "gain percent" of 100%.

The "Impact of Losses" chart shows what it takes to recoup from various sized losses.

What becomes apparent is that the "Gain Percent" rises exponentially as the "Loss Percent" increases.

Bottom line: you need a system in place to avoid large losses. You can likely recover from small losses, but large losses are what really thwart long-term growth.

Robert A. "Rocky" Mills is a registered representative with and securities offered through LPL Financial, Member FINRA/SIPC. Investment advice offered through Westlake Investment Advisors, a registered investment advisor and separate entity from LPL Financial.

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