Golden Pond Wealth Management

1st Quarter 2019

How to Handle Stock Market Declines…

Fighting Fear and the Hungry Bear with Facts

The correction and volatility we have been preparing for is here. Should you listen to the fear in your gut and sell now? For a moment, think of your investment portfolio as a financial house that you have built and remodeled over the last 20 years and will be living in for the next 20 years. It has provided your family with shelter and comfort and is built to stand up to the fiercest storms, but now that cold stormy weather has finally arrived and… the roof is leaking, the furnace is sputtering and the strong winds outside are rattling the windows. Does it make sense to panic and sell the family homestead which has weathered so many storms to the old bear, put the cash in a pillowcase, and go hide in the woods until the storm is over? How do you resist the temptation to give in to the bear growling on your porch? Unlike your real house, you can go online daily to check the value of your financial house; and that only feeds the temptation to sell and run away from the hungry bear. Fight your fear with these facts:

Market declines are part of investing.

Stocks have risen steadily for nearly a decade. But history tells us that stock market declines are an inevitable part of investing. The good news is that corrections (defined as a 10% or more decline), bear markets (an extended 20% or more decline) and other challenging patches haven't lasted forever.

Market Downturns Happen Frequently and They Don't Last Forever

Dow Jones Industrial Average 1900-2017

	-5% or more	-10% or more	-15% or more	-20% or more
Average Frequency[1]	About 3 times a year	About once a year	About once every 2 years	About once every 3.75 years
Average Length[2]	46 days	115 days	216 days	338 days

*[1] Assumes 50% recovery of lost value
[2] Measures market high to market low
The Dow Jones Industrial Average is an unmanaged, price-weighted average of 30 actively traded industrial and service-oriented blue chip stocks.

* Capital Group

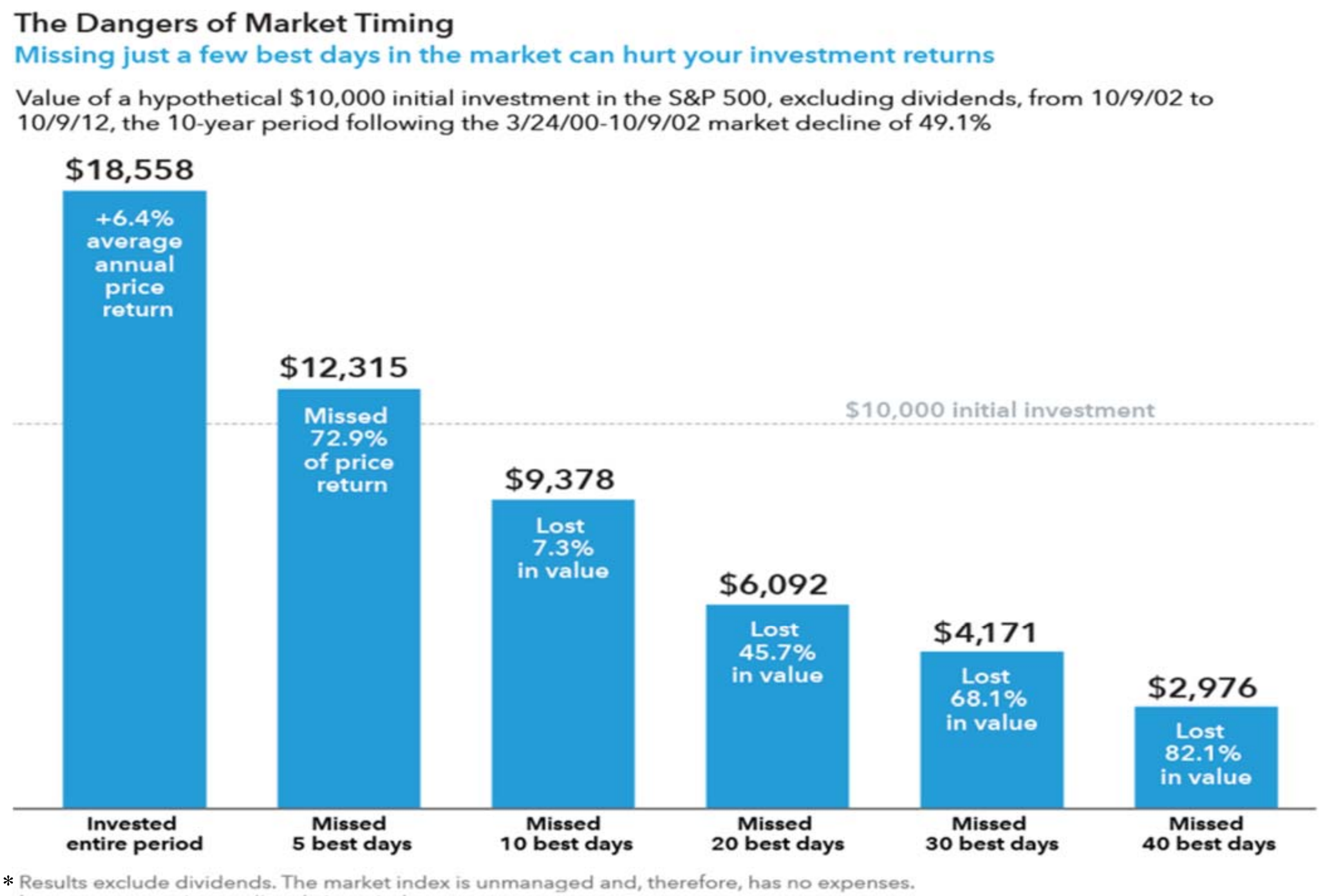
The Dow Jones Industrial Average has typically dipped at least 10% about once a year, and 20% or more about every 3.75 years, according to data from 1900 to 2017. While past results are not predictive of future results, each downturn has been followed by a recovery and a new market high.

Time in the market matters, not market timing.

No one can accurately predict short-term market moves, and investors who sit on the sidelines risk losing out on periods of meaningful price appreciation that follow market downturns.

Every Standard & Poor's 500 Index decline of 15% or more, from 1929 through 2017, has been followed by a recovery. The average return in the first year after each of these market declines was nearly 55%.

Even missing out on just a few trading days can take a toll. A hypothetical investment of $10,000 in the S&P 500 made in 2002 – the start of the recovery following the bursting of the technology bubble – would have grown to more than $18,000 by the end of 2012. But if you missed the 10 best trading days during that period, you would have ended up with just $9,378 – less than the initial investment.



* Results exclude dividends. The market index is unmanaged and, therefore, has no expenses. Investors cannot invest directly in an index.

* Capital Group

Emotional investing can be hazardous.

Daniel Kahneman won his Nobel Prize in 2002 for his work in behavioral economics, a field that investigates how individuals make financial decisions. A key finding of behavioral economists is that people often act irrationally when making such choices.

Emotional reactions to market events are perfectly normal. You should expect to feel nervous when markets decline. But it's the actions taken during such periods that can mean the difference between investment success and shortfall.

One way to encourage rational investment decision-making is to understand the fundamentals of behavioral economics. Understanding behaviors like anchoring, confirmation bias and availability bias may help you identify potential mistakes before you make them. (See the enclosed article about bias I wrote for Maine Seniors Magazine)

Diversification matters.

A diversified portfolio doesn’t guarantee profits or provide assurances that investments won’t decline in value, but it does lower risk. By spreading investments across a variety of asset classes, we lower the probability of high volatility in your portfolios. Overall returns won’t reach the highest highs of any single investment - but they won’t hit the lowest lows either.

* Sources: U.S. large-company stocks – Standard & Poor’s 500 Composite Index; Global small-company stocks – MSCI All Country World Small Cap Index (net dividends); International stocks – MSCI All Country World ex USA Index (net dividends); Emerging market stocks – MSCI Emerging Markets Index (net dividends); U.S. bonds – Bloomberg Barclays U.S. Aggregate Index; International bonds – Bloomberg Barclays Global Aggregate Index; Cash – 30-day U.S. Treasury bills, as calculated by Ibbotson Associates. Unlike fund shares, U.S. Treasury bills are guaranteed. Indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index.

* Capital Group

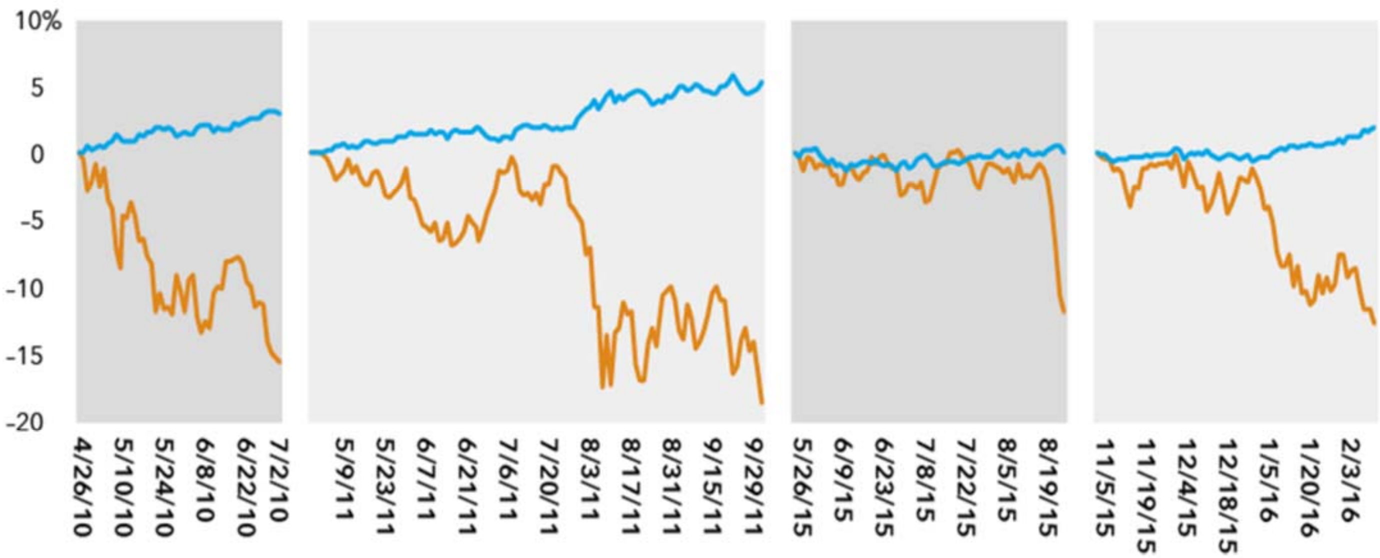
Bonds can help bring balance.

Stocks are important building blocks of a diversified portfolio, but bonds can provide an essential counterbalance. That’s because bonds typically have low correlation to the stock market, meaning that they have tended to zig when the stock market zags.

What’s more, bonds with a low equity correlation can offer protection from losses even when the broader market is in turmoil.

Though bonds may not be able to match stocks’ growth potential, they have often shown resilience in past equity market declines. For example, in four recent equity market corrections, U.S. core bonds were flat or notched gains as the S&P 500 declined.

Cumulative Returns During Recent Market Corrections



	Cumulative Total Return			
	Correction 4/23/10–7/2/10	Correction 4/29/11–10/3/11	Correction 5/21/15–8/25/15	Correction 11/3/15–2/11/16
S&P 500 Composite Index	-15.63%	-18.64%	-11.89%	-12.71%
Bloomberg Barclays U.S. Aggregate Index	3.00%	5.35%	0.04%	1.92%

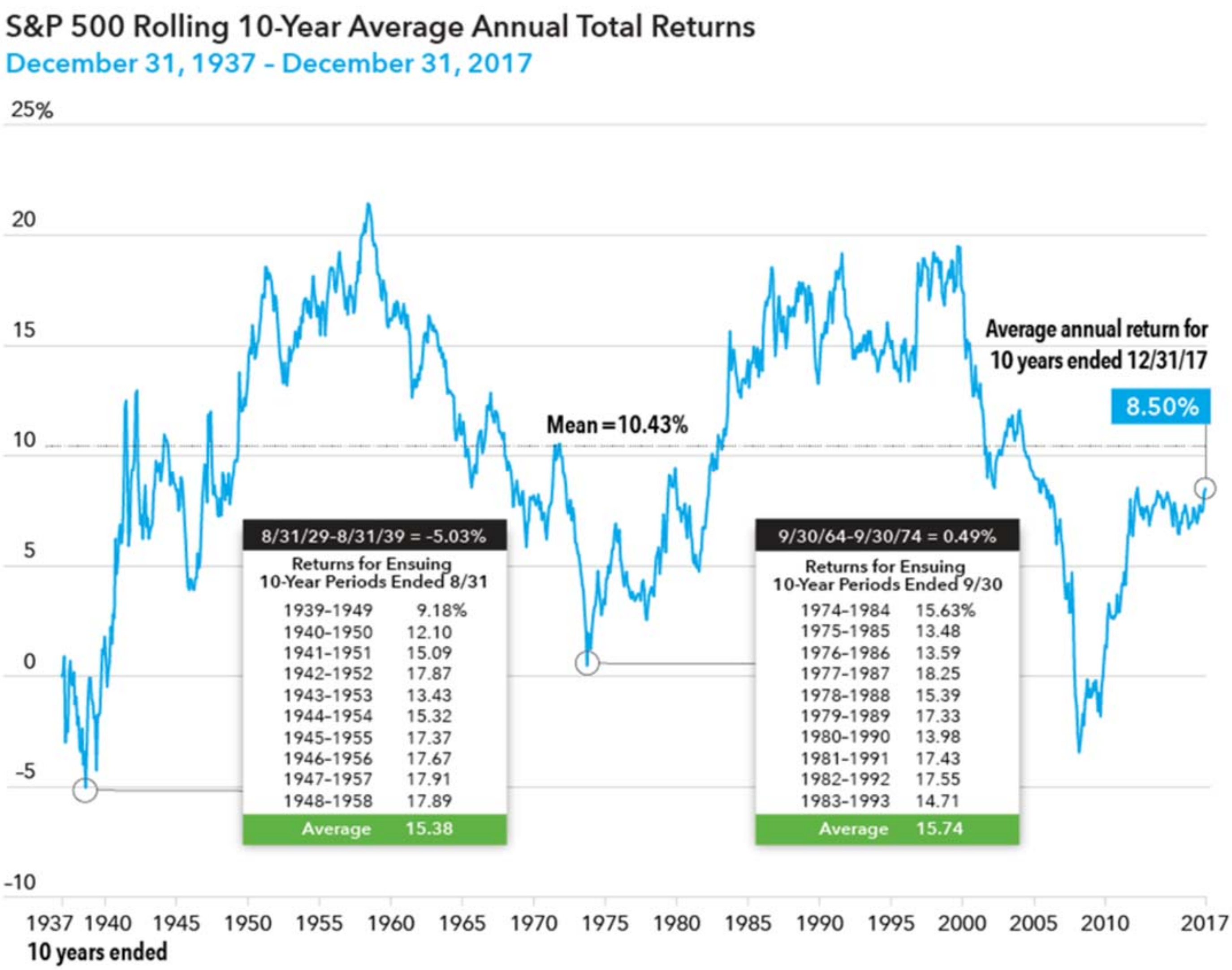
* Sources: Bloomberg Index Services Ltd., RIMES, Standard & Poor’s. Dates shown for market corrections are based on price declines of 10% or more (without dividends reinvested) in the unmanaged S&P 500 with 50% recovery between corrections.

* Capital Group

The market tends to reward long-term investors.

Is it reasonable to expect 20% returns every year? Of course not. And even though stocks have moved lower in recent months, you shouldn’t expect that to be the start of a long-term trend. Behavioral economics tells us recent events carry an outsized influence on our perceptions and decisions.

When stocks are falling, it’s important to maintain a long-term perspective. Although stocks rise and fall in the short term, they’ve tended to reward investors over longer periods of time. Even including downturns, the S&P 500’s mean return over all 10-year periods from 1937 to 2014 was 10.43%.



* Source: Capital Group

Results are calculated on a monthly basis. The index is unmanaged and, therefore, has no expenses. Investors cannot invest directly in an index. Past results are not predictive of results in future periods. The Standard & Poor’s 500 Composite Index is a market capitalization-weighted index based on the results of 500 widely held common stocks. The S&P 500 Composite Index (“Index”) is a product of S&P Dow Jones Indices LLC and/or its affi liates and has been licensed for use by Capital Group.

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It’s natural for emotions to bubble up during periods of market volatility. I encourage you to tune out the daily news and talking heads and stick to a well thought out and time-tested long-term investment strategy. Your financial house has been built to weather this storm. Work hard to resist the temptation to sell to the angry bear and run to the woods.

Brian

Brian Bernatchez, CFP®

Managing Principal