2015: A Time for Patience

Don't let the market's jumps rattle your commitment to staying invested.

Provided by Jeff Zufall

What the market does today, it may not do tomorrow. That may seem elementary, but there are days, weeks, months, and even years when that investing lesson is ignored. Wall Street started 2015 with pronounced volatility, and in the opening six weeks of the year, investors were again reminded why patience is so important.

What did investors do in January? Sell. The S&P 500 lost 3.10%. Discouraging news items bred pessimism: deflation was coming to Europe, world demand for oil had peaked and prices would never come near $100 again, the slowdown in Europe and Asia would soon unravel America's economic comeback. An old market belief dictates that the opening month of a year sets the tone for the rest of the year. Clear implication: 2015 equals bad market year. Sell, sell before it is too late.[1]

What did investors do at the start of February? Buy. The S&P 500 gained 3.03% in the first trading week of the month (and it had advanced 2.64% in the 30 days ending February 6). Encouraging news items bred optimism: the European Central Bank unveiled an asset-purchase program extending into 2016 to fight deflation with a scope matching QE3, oil prices began to rebound sharply, assorted earnings pleased Wall Street. Clear implication: 2015 might not be so bad. Buy the dip.[2,3]

What's the takeaway here? Don't panic. Don't let a down January lead you to put off your annual IRA contribution or trim your per-paycheck retirement plan deferrals. What ground stocks lose, they may quickly regain.

For the record, 2014 provided the same lesson in patience. January 2014 saw the S&P 500 fall 3.56%. February 2014 brought a 4.31% gain. The S&P went on to go +11.39% for the year. Perhaps its 2015 performance will mimic this.[1,3]

History is no barometer of future stock market performance, but it can be illuminating with regard to how stocks have overcome the "January effect" – a bad January does not necessarily lead to a lousy year. In fact, here is the real eye-opener: during 1989-2014, the S&P finished up for the year 75% of the time after a loss of 2% or greater in January, with an average annual gain of nearly 8% in those market years. In fact, only twice in the past quarter-century has a bad January presaged a bad year for the index (2000, 2008). In 2009, it lost 8.57% in January and went +35.02% for the rest of the year. In 2003, it gave up 2.74% for January, then went +29.94% across the next 11 months. This illustrates that on Wall Street, anything can happen – and that includes good things.[4]

Stay patient & stay invested. The last couple of years have been notably placid for U.S. stocks. Entering February, the S&P had gone more than 1,200 days without a correction. That lulled some investors into a comfort zone, to the point where they overreacted to significant (but in no way aberrant) stock market fluctuations.[5]

Patience is a virtue for the long-term investor trying to build wealth for retirement and other future objectives. Already, this stock market year has highlighted its value. The Federal Reserve may elect to raise interest rates and the strong dollar may persist for some time, but those factors may not hold back the bulls in 2015 any more than many others have since 2009.

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