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Looking Past the Headlines

Over the past week, stock markets worldwide have experienced a significant drop in prices. Whether the media calls them downturns, corrections, selloffs or crashes, such events are actually a normal part of investing in equities. In any given year, the market has on average dropped 14.2 percent at some point during that year with 27 of 35 years ending up positive for investors.[1]

That is why it is important to remember that we built your long-term plan to sustain events like this one, knowing that market downturns and crises would occur. Together, we decided what financial goals were important to you, and we planned how you would be able to achieve them through various market cycles.

When markets are going up, we are more likely to accept the notion that investing requires us to take risk. However, when there are downturns, losses feel more painful because we typically recall recent years when markets were doing well rather than negative times we experienced in the more distant past. Right now, it can be difficult to find satisfaction in the idea that if there were no risk, there would be no reward.

Specifically for those investors who are drawing upon their portfolio, market losses like these are accounted for when we run statistically tested withdrawal plans. For all investors, there might be an opportunity to reinvest or rebalance to take advantage of lower prices. When we rebalance, we take money from those asset classes that have performed well (bonds so far this year) and use that increased purchasing power to buy asset classes that have become cheaper (stocks currently).

While many will try to predict the market's next move, it is impossible to know for sure what will happen. That is why risk and reward are related.

[1] From January 1, 1980 to July 31, 2015, the market as proxied by the S&P 500 Index. "Annual Returns and Intra-Year Declines," Guide to the Markets (As of July 31, 2015), J.P. Morgan Asset Management.