Are You Prepared for Volatility's Comeback?

It's been eerily quiet in the stock market for a long time.

That's why we're writing to you today — to tell you that it's been 20 months since the stock market has fallen 10 percent. In fact, it's been nearly a year since it has fallen 3 percent — the longest streak ever.

And all streaks eventually come to an end.

In other words, you can expect to hear one day that the stock market has experienced a decline of 3 percent. Maybe 5 percent, or even 10 percent or more.

And when that happens, don't be dismayed. Rather than wondering why the market fell, ask instead, "What took it so long?!"

Here's another fact to look for: When you hear that prices have fallen, you'll notice that the media will emphasize the number of points lost in the Dow Jones Industrial Average. With the Dow above 23,000, a 3 percent decline would mean a drop of more than 700 points. That's 200 points more than the market lost on Black Monday — Oct. 19, 1987!

But while that might be true, it's also highly misleading. The reason: The Dow was only 2,246 the day before the 1987 crash; those 508 points represented a whopping 22.6 percent loss. By contrast, with the Dow at 23,000, a 700-point decline would be only 3 percent.

In other words, on that fateful day in 1987, a $100 investment fell to $78. If a 700-point drop occurred today, a $100 investment would only fall to $97.

It's also important to consider what stock prices might do after a decline. Throughout history, every decline has been followed by new all-time highs. And although past performance doesn't guarantee future results, we see no reason to believe future highs won't occur.

Part of the reason for our confidence is the strong condition of today's economy. For example:

- The economy grew at an annualized rate of 3.1 percent during the second quarter of this year, according to the Bureau of Economic Analysis. We haven't seen an annual gain of 3 percent in almost a decade!
- Inflation remains low, too: It was only 2.1 percent in 2016, according to the Department of Labor, and has not risen much during 2017.
- Hourly earnings for private-sector workers rose at an annualized rate of 2.9 percent in September, compared to a year ago, according to the Department of Labor.

Does this mean nothing could go wrong? Not necessarily. No one knows the future, of course, and there are many reasons the stock market might fall. And the longer it takes for a market correction to occur, the more likely it is that one may occur.

So, think now about how you will react when a decline occurs. If you're prepared with a solid financial plan and fully understand why you're invested the way you are, there's no need to panic. You might even consider the drop to be a buying opportunity.

This is why we are recommending no changes to your portfolio at this time. What we do suggest is that this may be an excellent time to talk with your planner, <<financial planner’s name>>, to review your investment strategy to ensure you understand it. If you have any questions or just need a refresher, please don’t hesitate to call.

In this kind of environment, it is important to stick to your long-term strategy, which is designed to help you achieve your long-term goals and objectives. As always, please let us know if you have any questions.

Regards!

Ric Edelman

Founder and Executive Chairman

P.S. If you have a family member or a friend who has questions or concerns about their investments, we’d be happy to help them as well.

Ric Edelman is an Investment Advisor Representative who offers advisory services through Edelman Financial Services, LLC, a Registered Investment Advisor. He is also a Registered Representative and Registered Principal of, and offers securities through, EF Legacy Securities, LLC, an affiliated broker/dealer, member FINRA/SIPC.