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Even In Stock-Rich Connecticut, Decline Is Not A Crisis

BY MARA LEE

It was a teeth-grinding day on Monday, no question about it, as the Dow Jones Industrial Average fell by nearly 600 points, more than 3.5 percent.

And yet, no one who's invested in the stock market bought all their shares at the recent high in late May, when the broader Standard & Poor's index of 500 stocks began a slide that now totals 11 percent. Investors still have gains.

Joseph Matthews, first vice president at Morgan Stanley who runs the Morgan Stanley office in Fairfield, said no one thinks: "I made this investment four years ago and it's up X." Instead, he said, people say: "Wow, my account's down 10 percent over the last 12 weeks."

Matthews was struck by the temporary 1,000 point drop in the Dow Jones just after the stock market opened Monday, obviously. It followed a week when the bellwether index fell by 6.2 percent.

What does the decline mean for the economy, especially in Connecticut, where many high-net-worth households are heavily invested in the stock markets?

Probably not much, unless the declines grow a whole lot worse. Corrections of at least 10 percent are not uncommon. The S&P last had a correction in 2011. But more to the point, several experts noted that stock market drops — even very large ones — do not mean a recession is on the way, and certainly do not cause recessions.

Nick Perna, an economist who consults for Webster Bank, said he has studied the crash of 1987, when the Dow fell 23 percent in one day and almost 35 percent over a three-week period.

"We didn't have a recession for almost three years," he said, and when the early '90s recession happened, it had nothing to do with that Black Monday in 1987.

"If stocks don't fall any more, I think this thing will be shrugged off," Perna said. "These things happen. That's why there's a thing called an equity risk premium."

"The market and the economy are not the same thing," said Ray Bovich, president-elect of the Hartford chapter of the Chartered Financial Analysts Society and chief investment officer at Aegis Wealth Partners in Madison.

Since Friday, Bovich said, "there's been no panicked calls, no panicked emails" to the firm. A typical client of the firm has $1 million to $1.5 million in liquid assets.

As for stock declines affecting spending, even spending on luxury items, the connection is not strong, experts said.

Perna said he thinks a typical person does base a lot of his or her feeling about the economy's health on food prices, gasoline prices, the stock market and the value of their house. But, he said: "There's not a tight relationship between consumer sentiments and consumer spending."

He said as people gain extra income through raises or more hours of work, the poorer you are, the more likely you are to spend all of it.

But, spending that follows a perception that the value of your assets rising — stocks or houses — is far smaller than spending that follows a rise in income. The wealth effect in stocks is particularly muted, he said, because the top 10 percent of the country owns such a high proportion of equities.

"They don't adjust their spending up or down a lot," he said. The wealth effect for houses is stronger, though its influence on purchases is still much weaker than getting a raise, he said.

Bovich said, "I don't think this affects the high net worth individual," and, among the middle-class and working-class Connecticut residents who have stocks in their 401(k) retirement accounts, he said: "I don't think they really worry; their spending isn't really predicated on the market."

The bad news in the current stock swoon is that it's based on something real — an economic decline in China — which could further hit global markets and economies. The good news is, inflows to major stock index funds, such as Vanguard's Total Market Index and S&P Index, are up even through Friday, according to an Exchange Traded Fund tracker.

That's important because study after study shows that the best way to build wealth over decades is to buy stocks and bonds over time, in broad index funds, and don't try to stock pick or time the market.

Diann McChesney, a financial adviser at Asset Strategies in Avon, said the phone was quiet Friday and Monday. "We're not getting calls, and we're not getting frantic emails," she said, with the exception of one 66-year-old woman who generally needs a bit of hand holding. About 30 percent of the clients, who mostly have at least $500,000 in liquid assets, are retired, and another 20 percent would like to retire in the near term.

"Even in 2008, our clients pretty much stayed put, how we had them," she said. "We're not market timers."

If stocks continue their slide for a bit, Perna still doesn't think it will harm the economy, which is growing solidly. But, he said, it could convince the Federal Reserve to put off its interest rate hike. Many economists have predicted the Fed would act in September.

"I think if this thing gets reversed, not even completely reversed, and stock prices pick up a bit and China looks like it's stabilizing, then I think the Fed will go ahead and tighten," he said.