FINANCES

Don't let fear wash you out of the stock market now

Despite our eerily mild fall and early winter, we all know it is inevitable: cold spring rain interspersed with warm sunny skies. We've entered a season of rapidly changing, volatile weather. It's not so very different from stock market volatility we have experienced, although perhaps more unsettling.

Frankly, the unsettled conditions have been a long time coming as investors have gone over 48 months without experiencing a correction of more than 10 percent. With the S&P 500 coming off the highs it made on July 20 to a low of 1867 on Aug. 24, and the majority of the 12 percent correction occurring over just five days, it took a strong constitution for an investor to stay on course.

As any investor who's been through several market cycles — and has been successful — knows and understands, corrections are a necessary evil for a healthy market.

Investors who look to Connecticut markets to keep their investment dollars close to home are very familiar with the highs and lows of regional markets. One of our sectors is agriculture, including cigar tobacco, apples and even some nursery items that grace the lawns of our subdivisions, and by their very nature are cyclical. The same goes for insurance.

We also have seen highs and lows in our manufacturing sector, which relies heavily on defense and aerospace markets. From an investor standpoint, these sectors wax and wane with weather conditions and political priorities, but they also have strong roots in the state to help them weather stormy periods.

Of course, Fairfield County is experiencing a different low as a result of at least one anchoring company deciding to move out.

As investors construct portfolios consistent with their goals, it's important to keep in mind our critical need for liquidity — to fund the liabilities we are saving to fund. Let's face it, when a bill is due it needs to be paid without regard for whether or not we've made a prudent investment decision.

/ William Brown

Another critical factor is the time horizon of the liability we are funding. An investment funding a liability due within the next 12 months should look a lot different than a portfolio funding something like 25 years of retirement. And most important, anything we do as an investor should reflect our ability to tolerate risk.

As the old saying goes, there's no such thing as an atheist in a foxhole — or in a bear market. No matter how battle-hardened someone is as an investor, market downturns are emotionally difficult.

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Therefore, we need to fully understand what we can tolerate to be in a position to continually stack the odds in our favor of making rational decisions.

When we view the stock market from a historical perspective, it becomes easier to understand its gyrations. As much as we all dislike the inevitable downturn, to be successful with our portfolio we need to understand what we can control and what we can't.

History shows that during the course of a typical calendar year the average correction in the last 35 years is 10.5 percent. In spite of this, the SP500 has only experienced six calendar years of -20 percent returns while delivering +20 percent returns 34 of the last 89 years.

Additionally, an investor missing just the 60 best days during the last 25 years saw their return from an SP500 investment go from 9.1 percent to -1.6 percent. This demonstrates the difficulty of market timing as it requires getting out of the market at the right time as well as getting back in at the right time.

Very few of us enjoy waking up in the morning to see a downpour in the forecast. The same goes for the stock market. An umbrella and raincoat may be all you need to protect yourself in volatile wealth. In the stock market, ongoing portfolio review can provide the same service.

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