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Sudden Stock Market Corrections, or as Yogi would say . . .
"It's Déjà vu all over again."

Market corrections happen frequently. History tells us a correction of 5-10% occurs nearly each year, and every three years or so a 10-20% correction comes along. In bull markets, the drops tend to be sharp and fast and they appear out of nowhere. So, the fact is simply this, we will continue to have corrections. You can take that to the bank! As mentioned in our last letter, sooner or later, after a protracted rise, you may expect a market drop to come along.

The media doesn't seem to help much. It sifts through all the data, then prints what appears to be the most ominous. In last week's case, the headlines heralded the decline as the largest point drop ever in the DOW. In reality, what we should actually measure is the percentage loss. Last week's percentage loss represented about an 8.5% from the January highs, painful, but not very unusual.

We believe what we saw last week was a normal pullback after a substantial advance in prices. These happen for many reasons, but one is simply that prices may move up a little too fast for earnings and company growth to keep up, and that we need a little breathing time. Also, inflation, which has been historically low for nearly a decade, is showing signs of moving higher, possibly along with interest rates. There is another reason, purely mechanical, and that is the large influence institutions like mutual funds, pension funds, and foreign investment funds have on the market. Many of these maintain sell orders already loaded and waiting in computers. When triggered by a pre-determined price, they unleash a barrage of these orders and it hits the market like a cluster of machine guns. This explains why the market can suddenly drop 1200 points or more then recover half of it all within the period of a couple of hours.

As markets weaken after an advance, the majority of individual stocks also, of course, decline. When your stock falls along with the market averages, it typically does not indicate a problem with your company. It is simply caught up in the sentiment. The one promise we make to all new clients is we will guarantee there are times when the stocks they hold have periods of decline. If your stock advances from 25 to 100, it will take some time, and most assuredly will not move in a straight line. Prices always advance in an irregular movement.

Long-term bull markets are selfish. The fact is that a bull market will never accommodate everyone. It has been said that bull markets climb a wall of worry as most investors watch fearfully from the sidelines. While powerful moves in prices are ongoing in the face of major technological advances, most people simply worry that prices are too high or listen to the negative soothsayers forecast a gloomy future. However, it is our fervent wish that our clients will continue to benefit, participate, and enhance their finances over time.

As you have likely surmised, it continues to be our opinion that we are in a secular, long-term, multi-year bull market. It takes a long time for this type of market to develop, but once it does, we should be in for a long ride. If we have had a personal conversation about this, we almost certainly discussed our viewpoint on this subject with you, and we believe there are years of higher prices ahead.

The last secular bull market started in 1982 when it broke into new high ground for the first time in about fourteen years. Since this was so long ago, it is difficult to imagine how powerful and dynamic this long-term bull market was. From 1982 the market advanced for 18 years culminating in the year 2000 with the dot-com bubble. Only 1 of those 18 years showed a decline and it was minor – 3.1% in 1990. The gain in the S&P 500 for those 18 years was an incredible average of 18.5% per year. There were 9 corrections of more than 10% during that 18-year stretch, but for most people it was a great time to stay invested.

In 2013, the S&P 500 broke out into new high territory not seen since the year 2000. We believe that was the start of this major bull market, and it has years left to run. Since then, we have seen three corrections of more than 10%.

We would anticipate this current decline could last several weeks to perhaps as long as four months with the averages not moving much higher, but we also view this period as an opportunity and a time to look for bargains. If we are unable to make much headway in the next couple of months, we will do our best to review our current stock positions and structure for the next coming advance.

As Yogi said, “I ain’t in no slump. I just ain’t hitting right now.”

Sincerely,

Mike — Ben — David

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