Down, Up and Sideways

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The U.S. markets delivered an interesting last week of July, with a vertiginous 1.52% drop in the S&P 500 on Wednesday and the Nasdaq index down 1.74% on the same day. The 10-year Treasury bond yield jumped 7 basis points, which counts as exciting news in the bond market. And, of course, oil prices continued their up and down journey with another price surge.

The next day saw a rally, with the S&P 500 rising 0.21%, Nasdaq going up 0.22% and oil prices declining slightly, as Iran's leadership decided to come back to the negotiating table. Friday returns saw a 1% gain for the Nasdaq index and a 0.7% one day gain for the S&P 500.

For all the excitement, most stock portfolios were largely even from Monday to Friday and from the beginning of the month to the end. This illustrates an important point for people who rely on equities to eventually fund their retirement. Daily price movements are far jumpier (and queasier on the stomach) than weekly, and monthly price movements are much smoother than weekly. Your blood pressure level can be lowered simply by moving away from checking daily to weekly, weekly to monthly, monthly to (dare one hope?) yearly.

It's the same dynamic with less liquid assets like a family home. Most people believe that real estate prices rise smoothly along with inflation. But that's because they aren't able to get a precise appraisal every day—or even every year, in most cases. Not having access to pricing information smooths out all the wobbles.

Even in positive years, the markets drop an average of 13-14 percent at some point between January and December. Those downturns are a normal part of market psychology, where the herd temporarily goes into panic mode, only to realize that the danger is not nearly as great as they realized. It's helpful to remember that the worst 10-year return in the S&P 500 in the modern era is very nearly a gain: -0.9% in the 'lost decade' from 2000-2009—years which included examples of real panic: a 22.10% loss in 2002 and a 37% decline in 2008. The markets have a way of smoothing out the journey so long as we allow them to.

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Sources:

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If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number (215) 325-1595 or you can click here to schedule a meeting.

Please feel free to forward this article and offer to anyone you know who might have financial questions or need some unbiased advice. Most financial advice is sales advice. In stark contrast, we are fee-only (non-commissioned) fiduciary advisors. We just provide truthful, unbiased advice to our clients.

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