

Commentary - October 1, 2015

Recently I met a fellow investment advisor who described the stock market decline we are currently experiencing as a “buying opportunity”, adding “I love when this happens”.

I doubt whether the typical investor shares his enthusiasm. A few bad weeks has erased a year’s worth of portfolio gains. I myself will discard the coming monthly statement in the trash without so much as a brief glance at the bottom line valuation.

Since reaching an intra-day high of 18,351 on May 19th, the Dow Jones Industrial Average has fallen 2067 points. [Wall Street Journal May 20th, 2015 and October 1st, 2015] This qualifies as a “correction”, which in Wall Street jargon is a loss of 10% or more. For the year, the DJIA is down 8.63%, with the S&P 500 Index down 6.74%. [Wall Street Journal October 1st, 2015] This is noteworthy in that the S&P 500 has not had a year of negative returns since 2008. [Callan Associates Periodic Table of Investment Returns]

The market had been treading water from its May high until late July. It then began its fall, as readings used by market technicians were showing signs it had topped out in terms of historical valuations and some other measures. The decline really picked up speed in mid-August, when the Chinese government announced it was devaluing its currency, the yuan. Traders used this as a reason to liquidate their equity positions, and the selling quickly gained momentum.

It is important to realize that the market typically falls 10% from a recent high every other year, and we have not had a “correction” since 2011. This will be a small comfort to those whose time horizons are not lengthy or who do not have reserves set aside to cash in on this “opportunity”. Nevertheless, terribly upsetting short interim losses are the price to pay for extended term positive (double digit, in some periods) returns. While it would be less stressful if the market realized gains in an orderly and consistent manner, more often than not it is either boom or bust.

As always, I invite you to contact me and am available to meet at your convenience.

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