OFG FINANCIAL FOCUS
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Of Corrections, Recessions, Bear Markets And Other Distractions

TUNE IN TO CNBC, OR FOX BUSINESS network, and leave it on for an entire eight hour day. (I dare you.)

I can pretty much guarantee you that sometime during those eight hours, one of their numberless, ubiquitous talking heads—of whom you've never heard before and may never hear again—will predict an imminent stock market **correction**.

He/she will not define the term "correction," nor say where the correction will begin, nor predict where it will end. He/she will simply say, "We're overdue for a correction, because of this, that and the other warning signs." Then there will be a commercial for gold coins, a prescription drug for a malady you do not have, or adult diapers. Or all three.

At some other point in the eight hours, another no-name talking head will predict a **recession**. Once more: no definition, no estimate of an onset, no mention of a bottom. Cut to commercial.

Finally, well within the eight hours, a third far-seeing talking head will call for a **bear market**. (Hasn't been one since the bottom in 2009; market is "overvalued;" Fed is raising rates.) Once again: no definition, no projected peak, no projected trough. Now this commercial message.

What are you—the patient, disciplined, goal-focused, long-term investor—to do? What do you need to know—heck, what ***can*** you know—in order to deal intelligently with one or more of these forecast market/economic setbacks? I will suggest that there are six key things you can, and indeed must, know. To wit:

- All the **stock market corrections** in your lifetime—and long before—have been temporary. So have all the economic **recessions**, and so have all the **bear markets** in stocks. They have all been temporary setbacks, and each has given way in time to the resumption of a major long-term uptrend.
- During the 71 years 1946-2016, there were 57 stock market **corrections**, which are usually defined as declines in the S&P 500 Index of ten percent or more on a closing basis. *That's an average of about one every fifteen months.*
- During the same period, there have been eleven economic **recessions**, usually defined as a decline in U.S. GDP lasting for at least two calendar quarters. *That's an average of about one every six and a half years.* The average time the economy was in decline during these recessions was 11 months; the average contraction was 2.3% of GDP. (Another way of looking at this is to consider that there were 852 months in the 71 years under discussion, and that the economy was in recession for 121 of them, or 14%. The other 86% of the time, the economy was growing, as indeed it is at the moment.)
- During this time, there have been (by my count) 14 **bear markets** in stocks, usually defined as a decline in the Index of 20% or more on a closing basis. *That's an average of about one every five years.* Please note, however, that **I** include in my count three declines of 19% and change, just because they ***felt*** like

real bear markets. I must ask you to humor me on this.

- During these 71 years, when stocks were **correcting** 57 times, and experiencing 14 **bear markets**, the S&P 500 Index went from 15 to 2,240, an increase of about 150 times. (The dividend, not that you asked, went from seventy-one cents to $45, up about 65 times.)
- During the same 71 years, while the economy was experiencing 11 **recessions**, real (inflation-adjusted) U.S. Gross Domestic Product went from about $2 trillion to nearly $17 trillion . That's a multiple of more than 8 times in a country whose population grew less than two and a half times, so *per capita* real GDP growth has been...pretty darn terrific.

What ought you to infer from this tsunami of data? I'll leave that question to you and the financial advisor who sent you this little essay, to explore at your leisure.

What ***I*** infer from it is that, lo these 71 years past, an equity investor who stayed focused on the long-term trends—the 86% of the time the economy was expanding, for example—probably did pretty well, if not very well, But the investor who got panicked over one of the temporary declines—in the economy, in stock prices—probably did...a whole lot less well.

You can't change (or control, or predict, or time) the economy or the markets. ***But at any moment, you can change what you choose to focus on***. And over time, the decisive variable in your lifetime investment returns is very likely to be your focus.

(Data above conerning the price and dividends of the S&P 500 come from—you guessed it—S&P. Recession data come from the National Bureau of Economic Research, the official arbiter of such things. Population data come from—right again—the U.S. Census Bureau, a government agency. GDP data come from the U.S. Bureau of Economic Analysis, another government agency. As the late, lamented Casey Stengel always said, "You could look it up.")

I don't want to say we eat out a lot, but I've noticed lately that when I call my kids for dinner, they run to the car.

Julie Kidd

Time stays long enough for anyone who will use it.

Leonardo Da Vinci

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