Angeles
INVESTMENT ADVISORS

Drop (in the bucket)

By Michael Rosen on September 15, 2015 at 4:07 pm

Markets will fluctuate, as Pierpont Morgan caustically observed. And “fluctuate” means down as well as up. Perhaps I, too, am being caustically obvious, but I’ve long believed that a broad perspective on markets can often bring more clarity than myopic obsession.

It was in 2011 that the S&P 500 Index last fell more than 10%, apparently beyond the memory of many investors who believed these corrections were relegated to ancient history, like buggy whips and handlebar moustaches. Last month the S&P dropped more than 6%, and between 21 May and 25 August of this year, declined 12.4%, ending the 3rd-longest spell (since 1928) without such a decline.

The graphic below (courtesy Ned Davis Research) plots the S&P 500 Index since 1928 (on semi-log scale) with the number of days between 5%, 10% and 20% declines. I’ll offer two observations: first, large corrections do seem to be occurring with a little less frequency than in the past, and secondly, the Index has risen from less than 5 in 1932 to around 2,000 today, declining frequently along the way. For long-term investors, the drop from 2,130 to 1,867 (May-August) is a drop in the bucket. It’s the move from 5 to 2,000 that really counts.