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Recently, we here at DWM posted a blog discussing the phenomenon that " Bull Market Runs Come in All Lengths ". Within this article, we mentioned the idea that before our current bull run ends, we may see many more pullbacks and/or corrections.

Within the current month, we have seen these types of market downturns as investor fears of upcoming mid-term elections, tariffs, rising rates, and international economic slow-down issues have spiked levels of consumer fear (measured by the volatility index, VIX), by nearly 50% .

While this data can't tell us whether the current bull market run is coming to an end, it opens up the opportunity to better understand just what is happening in the economy, and how we should handle times like these.

To understand the severity of market moves, there are three unique distinctions: a pullback, a correction, and a bear market, which signify downward market moves of 5%, 10%, and 20% respectively.

Over the past month, securities within all asset classes – equities, fixed income, and alternatives - have experienced one of these. On October 23rd, in fact, over 40% of the stocks in the S&P 500 were considered to be in bear market territory. Since then, markets have continued their run of ups and downs.

What can this market data tell us about the future? Unfortunately, not much. While markets tend to be cyclical in nature over the long-term, the short-term is usually marred by emotions (herd mentality, greed, and fear) rather than by solid fundamental and economic modeling. Furthermore, the risk of attempting to predict these short-term outcomes can have a serious long-term effect on the performance of an investor. Studies have shown that by missing out on only a few days strong returns in a market cycle can drastically impact the portfolio's overall return.

Thus, in order to stay on track with long-term financial goals, one of the most successful and least anxiety-inducing ways to manage investments is to generate a financial plan, assess and re-assess risk tolerance regularly, and continually stay disciplined to these values in order to avoid making emotional and poor decisions. In conjunction with these actions, an investment portfolio needs both an appropriate asset allocation based on a client's financial plan and has to be made up of a well-diversified portfolio that can help provide exposure to market areas, such as fixed income and alternatives, that are arenas that may still produce returns even with stocks stuck in a slowdown. The combination of these strategies can work as shields to protect both an investor's assets, and his/her mental health during times of volatility such as today's challenging marketplace.

At times, corrections, pullbacks, and even bear markets can actually be good things! If certain areas of the market are being overvalued, or company valuations are getting ahead of their fundamentals, pullbacks and corrections can serve as a check and balance system, to get these more in line. This makes companies, sectors, and markets more stable as they can refresh a bull market that is verging on inflating itself beyond its means.

Furthermore, a pullback, correction, or bear market move down for a certain security can provide other opportunities. For example, this month, DWM will be creating value for clients by taking advantage of tax-loss harvesting options. Tax-loss harvesting is the process of selling out of a security that has lost value since an investor first bought it, and using that loss to offset any gains that an investor realized during a tax year. This upside can serve as a nice treat to offset the "trick"-y investment arena of October.

One other somewhat notable factoid is that in the mid-term election year of October 2014, the stock market took a noticeably similar look. That of the Dow Jones down nearly 3%, rebounding, and selling off throughout, ultimately dropping into correction territory. This was quickly followed by a November post-election market boom hitting record highs for the Dow and S&P 500. Once again, while interesting to see, take these numbers with a grain of salt moving forward and looking at future returns.

All in all, keeping in mind that while volatility and uncertainty in the marketplace can be scary, maintaining a balanced, disciplined portfolio and financial plan, and staying dedicated to that plan throughout all market cycles is the key to being financially sound and minimizing the number of sleepless nights. At DWM, we proactively discuss these matters with clients, and strive to keep our clients informed, motivated, and on-target to their financial plans to help them reach their long-term financial goals. Happy Halloween!