A Compendium on Achieving Financial Independence

EnRich Financial Partners
ALIGNING YOUR MONEY WITH YOUR LIFE

Christopher D. Rich, CFP®
Elaine B. Rich, CFP®
Neil R. Dinndorf, CFP®

3rd Quarter 2014
Volume 14, Issue III

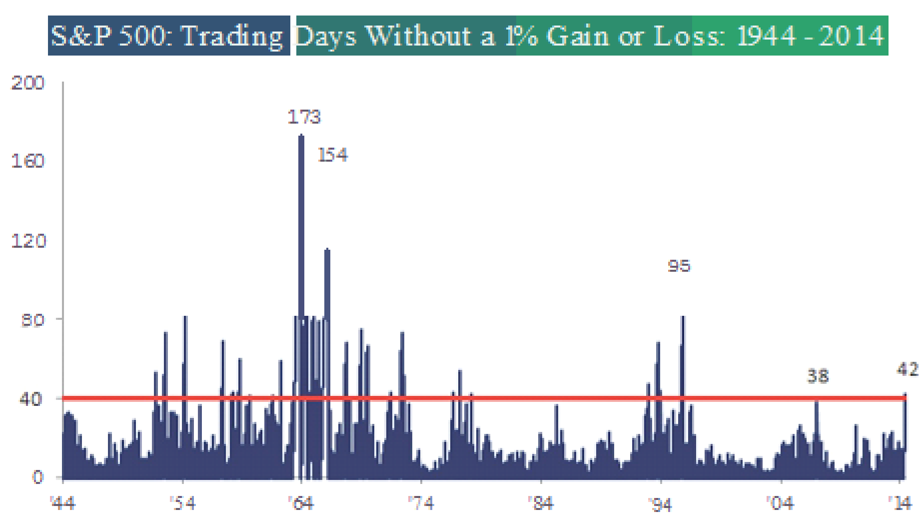
Volatility Is Up. So What?

Professional investors know something that most people find impossible to believe: that the threat of ups and downs in the market is by far the best friend of the long-term investor. Why? Because over the long-term, stocks have provided returns far higher than bonds and cash. If it weren't for the occasional dizzying gyrations, any rational investor would put his or her money where the highest returns have been, right?

This appears to be one of those times-a time when non-professional investors are reminded of the reasons why they have this lingering fear of the stock market. Since the end of September, the S&P 500 Index has done something regularly that it normally does infrequently: moved more than a full percent up or down in a single day. Consider the recent pattern this month:

Oct. 1	-1.3%	Oct. 15	-0.81%
Oct. 2	+0.05%	Oct. 16	+0.01%
Oct. 3	+1.1%	Oct. 17	+1.29%
Oct. 6	-0.2%	Oct. 20	+0.91%
Oct. 7	-1.5%	Oct. 21	+1.96%
Oct. 8	+1.8%	Oct. 22	-0.73%
Oct. 9	-2.1%	Oct. 23	+1.23%
Oct. 10	-1.1%	Oct. 24	+0.71%
Oct. 13	-1.65%	Oct. 27	-0.15%
Oct. 14	+0.16%	Oct. 28	+1.19%

Contrast this to the calm before the storm: earlier this year, the market experienced 42 consecutive days without a single 1% price move. The chart below shows that this is far from the record.



- Over the long-term, stocks have provided returns far higher than bonds and cash.
- Don't fall into the trap of getting anxious over short-term swings in stock prices.
- Value is built over time, regardless of what happens tomorrow.

6502 Grand Teton Plaza
Suite 201
Madison, WI 53719

Phone: 608.275.3442
Toll-Free: 888.204.1557
Fax: 608.275.3445

www.enrichpartners.com
info@enrichpartners.com

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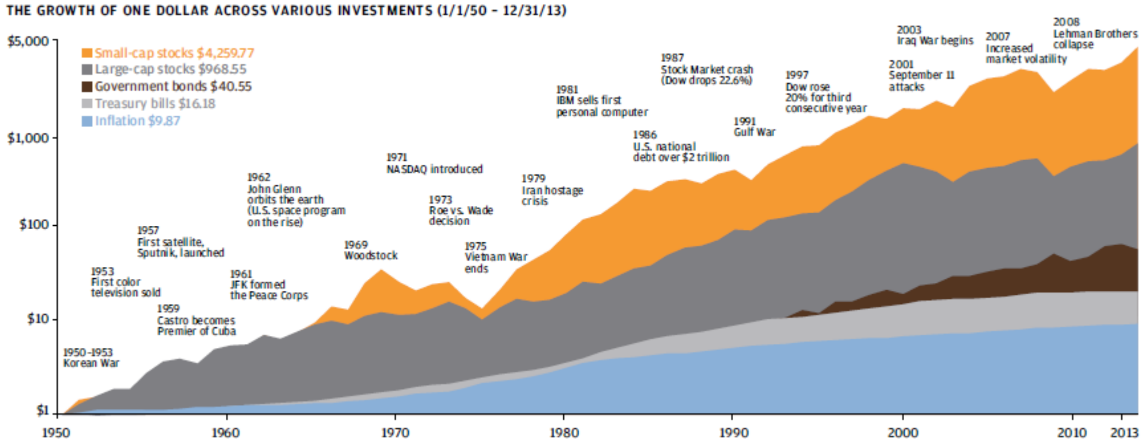
The question we should be asking ourselves is, why are we paying such close attention to daily market movements? Why are we allowing ourselves to fall into the trap of getting anxious over short-term swings in stock prices?

The following chart shows the growth of a dollar invested in the S&P 500 at the beginning of 1950, with dividends reinvested, compared with a variety of alternative investments which have not provided the same returns. (Note that small cap stocks, which are more volatile, have done even better.) The chart also shows all the noteworthy headlines that the market managed to sail through on the way to current levels, many of which created much fear at the time.

THE GROWTH OF ONE DOLLAR ACROSS VARIOUS INVESTMENTS (1/1/50 - 12/31/13)



This is not to say that the market won't go lower in the coming days, weeks or months. In fact, we are still awaiting that correction of at least 10% which the market delivers with some regularity on its way to new highs. This correction has been long-delayed in the current bull market. The thing to remember is that the daily price of your stock holdings is determined by emotional swings of skittish investors whose fears are stoked by pundits and commentators in the press. They know that the best way to grab and hold your attention is through fear. What they don't say, because it's boring, is that the value of your stock holdings is determined by the effectiveness of millions of workers who go to work every day in offices and factories, farms, warehouses, power plants, and research facilities. Slowly, incrementally, with their daily labor, those workers build up the value of the businesses for which they work.

The last time we checked, that incremental progress hasn't stopped. The economy is still growing. You may not hear anything on the news about the value of stocks you own; only the result of the daily, changing opinions of nervous investors. But if you take a second look at the growth of an investment in stocks over the long-term, you get a better idea of how that value is built over time, no matter what the market will do tomorrow.

Sources:
http://www.bespokeinvest.com/thinkbig/2014/6/17/1-moves.html
https://www.jpmorganfunds.com/blobcontent/377/965/1323354460291_II-GROWTH2014.pdf