Tom Mullooly: In this episode, we're going to talk about when you should freak out.

Welcome to the Mullooly Assets Show. I'm your host, Tom Mullooly. This is episode 18. Eighteen was the number that Darryl Strawberry wore, the straw that stirs the drink. There a couple other eighteens. One in particular that we want to mention, not a Met, but almost a Jet, number eighteen from Superbowl 50 this past weekend, Peyton Manning. Good job out there. I think you ought to finish strong and go out on top. Hopefully you won't come back and take Steve Carlton path to retirement, where he just hangs on way too long, but good job on that.

The format for these videos is we get questions from our clients, we get questions from folks that watch these videos, and we discuss them right here. Casey reads the questions to us and we try and answer them as best we can. Let's kick off 18; Casey, what have you got for us today?

Casey: The stock market has been really sloppy so far in 2016. Are we at the point where we should be doing something?

Tom Mullooly: The first thing I want to say in response to this question, and it's a good question, is that it's hard to protect against 5% drops in the market. Markets can drop 5% at any time for any reason or for no reason at all, and I know we've said that in other videos, too, and 10% drops in the stock market happen on average about once a year. Sure enough, we're recording this in the second week of February. The market's down about 9% so far this year, but it feels worse, doesn't it? It feels a lot worse.

Part of that is because the market fell 10% just a few months ago in September, and that really kind of came out of the blue. Market recovered, came back, but now it's falling again. Knowing that, it's important not to overreact. What we do when we're managing accounts for our clients is we have models in place that we use to measure the risk in the stock markets, and that's how we apply our different investments. Some of our models are starting to change, and we are starting to see some shifts, and so we don't want to overreact.

One of the things that, I've gotten calls from a few people and they say, "I want to move all of my money out of stocks and into the money market," or into a stable income or a stable value account. Moving 100% of your money into something like that, just getting out of the market entirely, is a really, really drastic decision. You not only have to be right on the timing on the way out, but you have to be right on the way back in if you go back in. Let me tell you that I had clients back in 2008 when the indicators were changing, they were very resistant to taking money out of the market. "Oh, it's just a pullback. It will be okay." I couldn't believe I was hearing this from my own clients, telling me that they wanted to be a little more longer-term, but in the end, it turned out to be the right thing to do.

On the flip side, those very same clients were so fear-stricken that they didn't want to go back in in 2009, even though all of our indicators and all of our models were telling us it's time to get back in. Now, one of the indicators that we follow is very, very close to giving a signal. What this does is it measures bonds versus stocks, essentially. I'd be happy to go into more detail if you want to call the office to discuss it. It's given some pretty good signals over the years when to overweight stocks versus when to overweight bonds, and it's very close to telling us to overweight bonds, but it's been on this doorstep a few times in the past, and hasn't given the signal.

That's really the important thing with these models and these indicators that we use is that you have to live through a 5% drop. You have to struggle through a 10% drop sometimes, and sometimes the markets don't go down exactly 10% and stop and then start moving back up. Sometimes it's 12%, sometimes it's 13%, but you have to listen to the indicators and you have to pay attention to them, because it's not some guy in the backroom smoking on a cigar saying, "Yeah, I think it's time to sell." It doesn't work that way. These are indicators that measure relative strength of one asset class versus another asset class. For instance, in this particular chart, this measures stocks versus bonds or the S&P 500 versus a bond index. The great thing about that is we're just seeing that tug of war, supply and demand, back and forth, and we really have to stick with them and not kind of go by the seat of our pants. That's not really a plan.

The other thing that I've learned over the years is that if you're making that decision to go into the market, back into the market, or get out of the market, if it's easy, you're probably doing the wrong thing. If it's gut-wrenching, you're probably right. It just tears me up inside knowing that when we move money to the sidelines, that we're dismantling some really great accounts and some accounts that we spent a lot of time putting together. It's important not to overreact and say, "The economy is going into a recession. We've got to get out now." We don't know about that. We haven't really seen that yet, so there's a lot of fear out there. There's a lot of people who, I guess the best way to describe it, their wounds from 2008 are still fresh in their minds, so people hear the words that there's a possibility of an economic slowdown or a possibility of a recession or possibility of trouble with the banks, and they flip out. They want to move to the sidelines and just eliminate the possibility of loss. It just doesn't work that way.

If you're going to be investing for the long-term, and most of our clients are, you have to be prepared that if you want to have the upside, you're going to have to live with some of the draw-downs that come with it, as well. It absolutely stinks to look at your account or open that statement and see big negative numbers, but they're temporary, and the markets do come back. If you're investing for the long-haul, and I'm talking three years, four years, five years and beyond, if you're investing with that kind of time-frame, you have to be thinking about having money in the market.

Now, there's times when you want to have less in the market, but if you're worried about what's going on in the market right now, get in touch with us, and we have tons of ways to reach us. You can pick up the phone and call us. You can reach out to us on Twitter, by e-mail. There's a lot of ways to get in touch with us, and we'd be happy to talk about what's going on and how that might impact your investments or how it might not. We'll be happy to give you a rundown of our indicators and tell you the story of what's going on right now.

So, a little different approach. Usually, we answer a couple of questions in these videos, but I wanted to take this time and just talk to folks about what's going on in the markets right now. We appreciate you watching, and we will see you in episode 19. We're going to have to find a famous Met that wore uniform number 19. If you know of any, let us know. We're thinking Bob Ojeda, but we're going to have to look that one up. Thanks for watching. See you next time.