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Tom: Today, we're going to talk about where to draw the line when the market's making a drop. Hello, and welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly. This is Episode #30, Ryan's Express. Nolan Ryan. We had a big debate before we turned the cameras on to talk about Michael Conforto, Kid Conforto or Ryan's Express. How can you not talk about Nolan Ryan? The guy had 5,000 strikeouts. When he played for the Mets, he wasn't the strikeout machine that he became known as. He pitched 510 innings for the Mets. He had 490 strikeouts, but he also had 350 walks. Guy had a lot of problems, and he missed a lot of time for blisters, tried really hard. We try really hard to give you straight advice when it comes to managing your finances, managing your money, investment questions. That's normally how we get the material that we cover in these videos, questions from you.

Keep those questions coming in, but today's video actually was inspired by a post that we read online. Casey's going to give us the basic gist of it and I'll spend a little more time talking about it. Casey, lay it on us.

Casey: After talking about that piece from NewFound Research today in our meeting, do you think we could spend a little time talking about the effects of negative numbers?

Tom: That's a great post from NewFound Research. Casey, make sure you link to that in our post when we get the video up online. It's important to know that you don't want to get too hung up when it comes to the market going down. Nobody likes seeing negative numbers, that's for sure. There's a point where negative numbers become a real problem. We're not talking about the economy, or the stock market, or whatever, we're talking about math. Just simple math. If the market goes down 8%, you need less than 9% to get back to where you started. If the market goes down 10%, you need just a little over 11% just to get back to where you started. I'll just keep these in real simple numbers. If you start with $100,000 in the market and the market goes down 10%, your 100 is now worth $90,000. Now, with that $90,000 you want to make $10,000 to get back to 100, right?

Do the math. You've got to make $10,000 on $90,000, that's 11.11%. If you lose 10%, you need about 11% to get back to where you started. Funny thing happens when the losses start to exceed more than 15%. If you lose 25% in your investments ... Let's just use the same numbers, if you started with $100,000 and you lose 25%, your hundred is now worth 75 grand. You with me? All right. Now, you want to get that 75 to grow back to 100, you're going to need to make $25,000 on $75,000, that's 33%. If you lose 25% on your investments, you need 33% to get back to where you started. That's not making money, that's to get back to where you started. Of course, if you lose 50% on your investments, you're going to need 100% gain to just get back to where you started. Now, nobody said if the market goes down 50% in 3 months, that you got to make it back in 3 more months. It could take longer. It could take a lot longer.

You have to understand how math works, but what I really wanted to stress was, if these numbers are small, if these losses are manageable, nobody likes to manage losses, no one likes losing money, no one likes to rip open their 401K statement and see a negative number, we get that, but if you can keep these numbers really small the opportunity to get back to even much faster is right there. It's usually right there in some of the same investments that you may already own. Don't get too hung up on negative numbers. Yeah, it's going to happen from time to time. If you're a growth oriented investor, if you're someone in your twenties, thirties, forties, even people in your fifties, you've got to make sure that money is going to last you 25 or 30 years, you should be looking for some element of growth in your investments.

If you're someone that fits that profile, you have to allow for small losses and not flip out when you see a negative five, negative six, it's not the end of the world. The market usually does come back. Of course, we can't always say that we can guarantee things, but the market has a way of smoothing itself out, over time. Take a look a that research piece from NewFound Research it was excellent, went into a lot more in-depth talk about the recapture on the way down and the way up that you may want to explore. In the meantime, if you've got questions, whether it's about math, trigonometry, maybe not so much, but if you've got questions about math with your investments, about money management, financial planning, get in touch with us. We'll be happy to help you out. There's never a cost or obligation, and you may see it on a future video.

Next video is going to be Episode #31. Casey, who do you think we ought to talk about? That guy Piazza. We'll see you then.