What is an Average Market Drawdown? - Transcript

Tom Mullooly: In episode 178, we talk about market draw downs. I'm sure you're going to want to tune in.

Welcome to the Mullooly Asset Show. I'm your host Tom Mullooly, and this is episode number 178. Thanks for tuning in. We want to talk about market drawdowns. In this video, we use some information that was gathered from JP Morgan, from the Federal Reserve, and also from Urban Carmel who writes the Fat Pitch Blog. Excellent blog if you ever get a chance to read it, and if you're a baseball fan, you know what fat pitch means.

The message is be prepared. Last Friday, we're recording this February 5th, 2020. Last Friday, the Dow Jones seemingly out of nowhere fell 600 points. The people were worried about the Coronavirus, they're worried about earnings, there's a lot of things that are impacting the markets. This week, the Dow Jones was up 80 points on Monday. On Tuesday, it was up 400. Today as we're recording, it's up another 400. So, crisis averted. We don't know.

I want to remind you that the Dow Jones and the S&P in 2019 we're both up nearly 30%, so both the Dow and the S&P in recent weeks were very, very, very overbought. The fourth quarter was really very good, so it was very overbought, just as recently as three weeks ago, as we mentioned in last week's video. The markets, despite whatever the headlines are, good, bad, or indifferent, the markets are going to work off that overbought condition, and sometimes they do it very quickly. That's the risk and that's where you have to develop a strong stomach. For instance, in the fourth quarter of 2018, the Dow and the S&P fell 19% other indices that we follow, like Small Caps, fell more than 20%.

But that set the stage for a really nice 2019. In the first quarter of 2019, markets were very strong. Second and third quarters, markets did nothing. In the fourth quarter of 2019, just ended a couple of weeks ago, market was very strong. That continued for the most part into the first couple of weeks of January.

The big takeaway that you need to remember is that will average one 10% drop, again, on average, per year. Sometimes we go two or three years without that kind of a drop. But we've had over 80 different, 80, eight zero, 10% drops in 90 years, averaging about one a year. This goes all the way back to the 1920s, so 90 years. let's use some recent data.

The average annual draw down since 1980 this is the last 40 years has been 14%. it is perfectly normal to see drops of 12, 14, 15%. drops of these kind of magnitudes are happening even in good years in the markets.

Even in the current bull market that we've been in, we've seen double digit drops in 2010, 11, 12, 15, 2016, and also, 2018. This stuff happens, and if you've been in the market for the last couple of years, you have to be able to stomach this sort of thing. If you're the type of person that flips out when the market is down 600 points, you probably have too much money in the stock market and you need to be speaking with your advisor about what's the right level of stocks for you to have in your investments.

Keep in mind that double digit drops happens on average once a year. In the last 40 years, the average drop is 14%. These things happen even in bull markets. Got to hang in there. Thanks for watching episode number 178. See you next time.