The Math Behind Market Declines - Transcript

Tom Mullooly: In episode 193, we go over some important math and some numbers, so stick around.

Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly, and this is episode number 193. Thank you for tuning in. Question came up recently in a discussion. Someone started out by saying, "Well, so the market fell 35%, and then it came back 30%. So we should be only down like 5%. We must not be doing so well by those numbers. I mean, we sound like we're not that close. I mean, we should be down 5%, right? We're down 35. Then we came back 30." And sometimes this is stuff in our industry, in our business, we take this kind of math understanding for granted. So I want to walk through an example to help clear these things up, and let's just keep the numbers really simple.

Start with a hundred dollars. If you lose 35% or $35, now you have $65. Now those $65 gain back 30%. that's another 19 and a half dollars, 19, 20 dollars. You're at 84 and a half dollars. So yes, you lost 35%. You gained back 30, but you're really down 14 or 15%. You're working off a smaller base when the gains begin, so it's important to keep that kind of math in mind when you're reviewing your investments. When you go down first, your investments have to go up more to get you back to even.

Another item that we want folks to remember in this current volatility, and we say current volatility, because at some point it will calm down. But we'll have more volatility in the future. But we're recording this on May 18th. The markets hit new all-time highs on February 19th. That's February 19th this year. So it's only been three months. The markets went straight down from February 19th to March 23rd, and then we started rebuilding from there. There was no break on the way down, so folks over the next couple of months that come out and say, "We saw it coming." A little tough to swallow. Sorry.

Most economic slowdowns and recessions can be spotted, even though most people won't believe the indications and the signs that are coming. But the drops that we had in the market in February and March were very sharp and very sudden and very fast. However, the response from the government and the Federal Reserve were equally sharp and sudden and fast.

So I remain far more optimistic than a lot of folks in my industry. I want people to understand that message and understand the message of the math and how the numbers work. If you've got questions, definitely reach out to us. We'd be happy to talk to you and walk through what's going on.

That's going to wrap up 193. Thanks again for tuning in.