"Don't do something, stand there!"

It was a dramatic quarter and finish to 2018. Beginning the fourth quarter of 2018, the S&P 500 was up 10.38% for the year. However, the last quarter was not kind to investors. For the year, the S&P 500 finished down 4.38%.[1] There were a couple of record setting events that happened in the final weeks of trading. On Christmas Eve, the Dow was down 525 points, which was the worst Christmas Eve in history. Then, on December 26th, it rebounded 1020 points and set a record for the largest one-day point gain ever.

In 2018 there was a tremendous amount of volatility in both the financial markets and in politics. These events seemed to shake the core of many investors. 2018 was not a great year for investors but we believe it is always important to keep things in perspective.

In 2017, the S&P 500 was up 21.83%.[2] Amazingly, this broad market index has not had a single down year since 2008. It has been one of the best and longest running bull markets ever. On March 31, 2018 the Dow Jones Industrial Average (Dow) stood at roughly 24,000. In spite of this recent downturn the Dow was around 23,315 at the beginning of this year.

Recent volatility has reinforced both our investment approach and the fundamentals we believe in. Over the past 25 years we've adopted our investment philosophy from some of the greatest investors of all time. Some of our favorites are Warren Buffett and Jack Bogle, the founder of the Vanguard Group and the father of index investing.

1. **Market Declines Are Inevitable**

   Stocks have risen steadily for nearly a decade. In fact, this has been one of the best ten year periods in market history. We do know, however, that market declines are an inevitable part of investing. The good news is that capitalism always prevails and markets recover.

   On average, the Dow declines about 10% at some point every year and 20% or more every 3.75 years according to data from 1900 to 2017.[3] These down turns are always followed by a recovery and new market highs. We can expect more of the same from this market correction.

   In the twenty-five years Patriot has been in existence, there have been twelve corrections.[4] Two of these were some of the worst since 1945. From March of 2000 through October of 2002 the

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[1] Morningstar, S&P 500 Composite Total Return
[2] Morningstar, S&P 500 Composite Total Return
[3] Capital Ideas, "How To Handle Market Declines", June 29, 2016
[4] CNBC, "We are now in a bear market – here's what that means", December 24, 2018

Dow was down 49%. In 2008, commonly known as The Great Recession, the Dow was down a whopping 57% and it bottomed out at 6,507. Ten years later it is at 23,400.[5]

Interestingly, this downturn puts the Dow at the same levels that it was at in November of 2017.

2. The Stock Market Is Unpredictable -- All The Time

In his most recent letter to Berkshire Hathaway shareholders, Warren Buffett said: "The years ahead will occasionally deliver major market declines -- even panics -- that will affect virtually all stocks. No one can tell you when these traumas will occur."[6]

While stocks can be wildly unpredictable over shorter time periods, they are more predictable over long periods. Over several decades, the stock market has generated annualized returns of roughly 9% to 10% per year. Since 1965, the S&P 500 has produced annualized total returns of 9.9%, for example, and this includes the dot-com bust, Black Monday in 1987, and the Great Recession. Even the worst crashes are rather meaningless when it comes to long-term returns.[7]

3. Time In The Market Matters, Not Market Timing

No one can accurately predict short-term market moves. NO ONE! Investors who sit on the sidelines or make decisions to sell during these downturns risk losing out on periods of meaningful price appreciation that follow market downturns.

Every Standard & Poor's 500 decline of 15% or more, from 1929 through 2017, has been followed by a recovery. The average return the first year after each of these declines was nearly 55%.[8]

Missing out on a few trading days can take a toll on returns. An investment of $100,000 in the S&P 500 made in 2002 – the start of the recovery following the bursting of the technology bubble – would have grown to $180,000 by the end of 2012. If an investor missed the ten best trading days, he would have ended up with just $93,780.[9]

BlackRock recently did an even longer study (see the attached Table). Over a twenty-year time period from 1998 – 2017 these number are even more pronounced. A $100,000 investment in 1998 would be worth $400,768. Had an investor missed just the ten best days during this same period, they would only have $200,008.[10]

4. Utilizing Index Funds Still Makes Sense

Every six months Standard & Poor's does a study of all the active managers who are trying to beat their appropriate benchmark. The most recent study reported that over the last five years,

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[5] Capital Ideas, "How To Handle Market Declines", June 29, 2016
[6] Fool.com, "5 Warren Buffett Principles To Remember in a Volatile Stock Market", June 19, 2018
[7] Fool.com, "5 Warren Buffett Principles To Remember in a Volatile Stock Market", June 19, 2018
[8] Capital Ideas, "How To Handle Market Declines", June 29, 2016
[9] Capital Ideas, "How To Handle Market Declines", June 29, 2016
[10] Blackrock, "How Markets Affect You: Our View on 2018 and Beyond", 11, 2018

76.49% of large-cap managers, 81.74% of mid-cap managers, and 92.90% of small-cap managers who were attempting to beat their benchmark lagged their respective benchmarks.

At Patriot we typically look at even a longer time period for our clients. Over a 15-year investment horizon, 92.43% of large-cap managers, 95.13% of mid-cap managers, and 97.70% of small-cap managers failed to outperform on a relative basis.[11]

Not only is it impossible to "time the market", it's even more difficult to try and "beat the market" and this is exactly why we use index funds which are designed to track the market.

5. **Make A Plan And Stick With It**

Patriot advisors are committed to staying disciplined in our investment approach and never want to panic. However, it is human nature to do so when there is extreme market volatility. Part of our task and responsibility as advisors is helping clients avoid financial missteps during these market fluctuations. It's our experience that once a client sells, there's a good chance it negatively affects their long-term growth.

This is why it's so important to have that a well-thought-out plan in place. For our clients, we have either a formal financial plan or a distribution plan.

Jack Bogle, founder of Vanguard and the father of index fund investing, agrees. Bogle has shared his advice on what investors should do in times like these. Simply put: Simply stay put. **"My rule -- and it's good only about 99% of the time, so I have to be careful here -- when these crises come along, the best rule you can possible follow is not "Don't stand there, do something," but "Don't do something, stand there!"** said Bogle.[12]

Bogle thinks that today is just about the worst time to change your investing strategy. But if you can't follow his advice to sit on your hands, he'd recommend only small shifts. **"These times of crisis, these times that try investors' souls, are terrible times to make decisions," said Bogle. "If you really have to make a decision, just to keep your own sanity, make it a small and incremental one."**[13]

[11] S&P Dow Jones Indices, "SPIVA U.S. Scorecard", June 30, 2018
[12] Forbes.com, "Bogle To Investors: 'Don't Do Something, Stand There!'", August 9, 2011
[13] Forbes.com, "Bogle To Investors: 'Don't Do Something, Stand There!'", August 9, 2011