



## **Market Volatility:**

### *Ten Steps to Calming Down in a Down Market*

1. **Acknowledge Your Fears.** A volatile market is scary. Ignoring or denying your fear will only exacerbate the problem. As Scott Peck said, “The absence of fear is not courage. The absence of fear is some kind of brain damage. Courage is the capacity to go ahead in spite of fear.” It is normal to have some anxiety during a market correction.
2. **Understand That Market Corrections Are Normal.** Remind yourself that market corrections are not unusual, but part of a normal, inevitable market cycle. Since 1928, there have been 87 corrections of 10% or more, compared to 23 corrections of 20% or more.<sup>1</sup> On average, that means that a 10% market correction is likely to occur about once a year and a market correction of 20% or more can be anticipated approximately every four years. Also, stocks historically have recovered quickly after a correction. Since 1946, it has taken the market just 111 days, on average, to rise to its pre-correction levels.<sup>2</sup> These historical facts should give nervous investors some comfort.
3. **Recognize That We Have Been Through Worse.** Since 1928, we have survived through many challenging events that defined their generation: the Great Depression, World War II, the Cold War, the Vietnam War, the high inflation of the 1970’s, the forced resignation of a President, and the terrorist attacks of September 11, just to name a few. Despite these events, the U.S. stock market has returned approximately 10% per annum since 1927.<sup>3</sup> It can be helpful to put today’s crisis in perspective. How does the current crisis compare to these other events? If we were able not only to survive but to flourish during those events, doesn’t it make sense that we will be able to weather the current storm as well?
4. **Remember We Are Investors, Not Speculators.** Market speculators make huge, short-term bets on the movement of the market. They can make or lose huge sums of money due to short-term volatility. The recent losses endured by hedge fund clients are a prime example of how short-term market bets can result in enormous losses. We are long-term investors, not speculators. As a result, the short-term movement of the market, though unsettling, has little practical impact on our lives.
5. **Bet on the Power of Capitalism.** We believe capitalism has been the greatest force for wealth creation in the history of man. By maintaining your long-term investment in the stock market, you are betting on the power of capitalism to overcome adversity. If you run for cover and sell your holdings, you are betting against capitalism. Which makes more sense to you?
6. **Remember the Cow Story.** Down markets create opportunities to purchase stocks at a substantial discount and thus enhance our returns over time. Virtually all of us are net investors either through a systematic investment plan or through reinvestment of dividends and capital gains. (If you do not know the cow story, visit the GV Articles link on the Recommended Readings page of [www.gvfinancial.com](http://www.gvfinancial.com).)

7. **Ignore the “Crisis of the Day” Mentality.** The media are always talking about the crisis of the day. Today’s crisis quickly becomes tomorrow’s distant memory only to be replaced by the next pending disaster. The media are driven by ratings and the truth is that fear sells. Have you noticed how often the media use the caption “Breaking News” to headline almost any story these days? Try not to pay too much attention to today’s crisis, and remember the media’s goal is to scare you so you will tune in tomorrow and improve their ratings.

8. **Make Confidence-Based Decisions.** During our lives, we all make some decisions based on confidence and some based on fear. Our experience is that our confidence-based decisions serve us much better. If you overreact to a short-term market correction, you are making a fear-based decision, and that decision could materially impair your ability to achieve your long-term goals.

9. **Remind Yourself That a Bear Market is When Stocks Return to Their Rightful Owner.** The price of earning stock market returns is living with short-term volatility. Legendary financier Bernard Baruch is often credited with having said, “In a bear market, money returns to its rightful owner.”<sup>4</sup> That saying is just as true today as it was 200 years ago. The reason stocks have historically returned more than bonds over the long term is because stock holders endure the volatility of the market. Without the volatility that goes hand-in-hand with stock ownership, the risk returns associated with stocks would diminish, and so would the attendant wealth.

10. **Focus on What Really Matters in Life.** It is easy during stressful times to forget about what really matters in life. For most of us, what really matters is family, friends, faith, work that uses our talents, and making a difference in the lives of others. When you are feeling anxious, try to divert your focus from the market and think about what matters most to you in life. If those areas of your life are going well, does it really matter if the market is undergoing one of its regular and temporary market corrections?

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<sup>1</sup> Paul J. Lim, “Count the Days, Not the Years, Of Market Pullbacks,” New York Times, September 2, 2007.

<sup>2</sup> Lim, “Count the Days,” New York Times, September 2, 2007.

<sup>3</sup> See, e.g., “The Stock Market Gains 10% Per year ON AVERAGE, But Usually Not 10% in Any One Year,” Free Money Finance, February 15, 2007. [http://www.freemoneyfinance.com/2007/02/the\\_stock\\_marke.html](http://www.freemoneyfinance.com/2007/02/the_stock_marke.html).

<sup>4</sup> [www.secinfo.com/dx6Xc.4f89g.htm](http://www.secinfo.com/dx6Xc.4f89g.htm), although there is some question as to whether this market proverb can properly be attributed to Bernard Baruch.

#### **Guided Wealth Transformation™**

GV Financial Advisors’ philosophy – we call it *Guided Wealth Transformation™* – is a process for transforming your experience with money. We engage in a structured series of guided conversations that help transform your perspective of life’s critical issues. Our goal is to make the complex become simple, turn confusion into confidence and transform fear into focused action. Give us an hour of your time and we will help you experience your money in a refreshing and liberating way.

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