“Remember, Jeff, ‘Stay the course!’”

This was the simple message a client emailed to me following the recent declines in the stock market. Brilliant.

In five words, he not only conveyed his belief in a core principle we’ve helped him accept over the course of our relationship, he also expressed understandable anxiety over the current volatility in the stock market.

Market declines are never easy to stomach, but they’re an integral part of a long-term process aimed at capturing the rewards a dynamic economy can provide to patient investors.

After staying the course through the financial crisis of 2008-2009, our clients have benefitted from a strong recovery in the markets that started in early March 2009. But it hasn’t been smooth sailing. Consider these numbers:

- Over the two months May 2010-June 2010, the market dropped almost 13%,
- Over the five months May 2011-September 2011, the market dropped over 16% and each month was successively worse,
- Over the two months April 2012-May 2012, the market dropped almost 7%,
- Over the two months August 2015-September 2015, the market dropped just over 8%.

In between, there have been an additional 14 separate months of market declines.

We can’t know, of course, if this current period of market decline is over. What we do know is that these kinds of declines are expected.

Remember, stay the course.
At first glance, the top graphic might appear to you to be a voice recording. Perhaps screams of joy or sorrow from an investor reacting to daily price changes in the stock market? Well, you wouldn’t be far off. The chart represents the daily price changes in the S&P 500 index from 1973 to 2014.

The bottom chart represents the calendar-year performance of a globally balanced stock index portfolio over the same period. Less sorrow and more joy from this perspective perhaps?

The question is, which chart most influences your long-term view of stock market risk and return? FYI, the annual return for the S&P 500 from 1973 to 2014 was 10.4%.

Top chart: Source is S&P Dow Jones Indices LLC. Indices are not available for direct investment and performance does not reflect expenses of an actual portfolio. Daily closing values are not adjusted for dividends.

Bottom chart: Source is Dimensional Fund Advisors. Portfolio mix is 21% S&P 500 index, 21% Dimensional US Large Value index, 28% Dimensional US Small Value index, and 30% MSCI EAFE index. All performance results of the globally balanced index portfolio are based on performance of indices with model/back-tested asset allocations; the performance was achieved with the benefit of hindsight; it does not represent actual investment strategies. The model's performance does not reflect advisory fees or other expenses associated with the management of an actual portfolio. There are limitations inherent in model allocations. In particular, model performance may not reflect the impact that economic and market factors may have had on the advisor’s decision-making if the advisor were actually managing client money. Past performance is not a guarantee of future results.