

Corrections are normal

Why do we invest in the equity markets? Is it because we love the day-to-day volatility? Of course not. The reason we invest in the equity markets is when we sat down with our advisor, we talked to them about our hopes, dreams and wishes at some point in the future and how much money we need to live it.

We discuss how much money we have today and how much money we can save each year. But ultimately, we need that sum of money to grow into that number in the future. And the reality is markets have provided that over the medium to long term, as illustrated by the chart. The green vertical lines represent the calendar year return for the broad U.S. stock market measured by the S&P 500 since 1980.

What sticks out to you? What sticks out to me is that most of the time those green lines are positive. In fact, the S&P 500 has been positive approximately 80% of the time on a calendar year basis since 1980. And depending on your time frame, the S&P 500 has returned between 8% and 12% per year. That's why we invest in equity markets, not because we love the short-term volatility, but it is a vehicle that allows us to reach our financial goals.

What are the blue dots? The blue dots are the biggest peak to trough sell off in each one of those years. Let's look at 2020. If you invested \$1 on January 1st, that \$1 would have appreciated by 16% by December 31st of that year. However, as shown by the blue dot, that \$1 was down at one point in March close to 35%.

When I look at this chart, I see that most of the time markets are up. Illustrated by the green lines. But the ride is never smooth. Illustrated by the blue dots. In fact, on average, we experience two 5% pullbacks in any given year. One 10% correction every couple of years. And a bear market every five years or so.

Next time we get a sell off. Think back to this slide and remind yourself that if you want to reach your hopes, dreams and wishes in the future, you have to earn those green lines, which means that you have to ignore the headlines which lead to those blue dots.

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