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Lesson Learned?

Investors who reacted emotionally to market movements have been humbled yet again. When U.S. stocks (measured by the S&P 500 index) fell 13.97% in last year's fourth quarter, most of us felt in our gut like the market was in the midst of a major bear market collapse. The downturn would continue into the new year, and take some or (worst case scenario) all of the 9+ year bull market profits with it.

Fortunately, we make decisions with our brains instead of our guts, and our brains might have noticed that the economy was not declining, companies were not going out of business, and there was no sign of blood in the streets. And sure enough, the markets turned around. So far, the S&P 500 index is up 11% for the year, and anybody who sold out last year missed the rally and the profits thereof.

Of course, that doesn't mean that the current rally will continue through this month, this quarter or this year, but that's the point. From day to day, month to month, year to year, past returns don't tell us anything about the future, and anybody who thinks they can guess whether a downturn will continue or whether a good month means more ahead is likely to guess wrong and lose out on the long-term benefits of being an investor.

Let's chalk the 2018 fourth quarter and first 2 months of 2019 to yet another lesson learned. We can't stop listening to our gut, but we can make a vow not to act on what it says. It's been wrong too many times before.

Sources:

https://us.spindices.com/indices/equity/sp-500

https://theirrelevantinvestor.com/2019/02/05/was-this-a-dead-cat-bounce/

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