**<u>Finally!! Now What?</u>**
**8/25/15**
**DJIA 15,666 S&P 500 1868**

Well, "the broken record" you've been hearing from me for over three years has finally come to pass. For long-time readers of these missives, there have been <u>two</u> predictions that have come true in the past few days:

1. For the first time since October 2011, the S&P 500 has recorded a 10% pullback (12.4% so far). Although this is normal (historically it occurs once a year or so), we had gone over 1400 calendar days without one – the third longest such streak in 50 years. I have been urging clients to be *mentally, emotionally and financially* prepared for this because we were so overdue. This is <u>healthy</u> for the stock market. In fact, I doubt the market could have moved much higher without this. Why? Because market corrections (especially those of 10% or more) serve the much-needed function of moving stock shares from "weak hands to strong hands." By the time a correction has "done its deed," those left holding the shares are the ones with true conviction – the <u>investors</u>, not the <u>traders</u>. That's us! Hooray for occasional 10+% corrections!

2. I have promised repeatedly that when (not if) a 10+% correction arrived, the media would go nuts! Have you heard them?! The end of the world is surely near! And the result is that many investors feel awful – fearful, nervous, nauseated. That's because it's easy to forget how a normal correction "feels" when we haven't had one in nearly four years. Of course it's not fun – but it is normal.

So now what? Now that the S&P 500 is -12.4% from its May high, what happens? While there are certainly no guarantees, here's my current thinking:

● Maybe we saw the lows on 8/25 and we just bounce right back – as we did last fall. (Do you remember how quickly we recovered from that 9.8% correction??) If so, that's a "V"-shaped recovery. They happen but are not the norm.

● Maybe we rally for a while but then pull back again and have a successful retest of the lows – a "W" chart pattern. This is the typical "bottoming process" and my best guess as to how things will unfold.

● Maybe, after the bounce we go a bit lower – but I highly, highly doubt this leads to a true bear market (a 20%+ decline). I'd give a bear market less than 3% odds.

What to do? You've heard it from me a zillion times (another broken record) but it matters: Own quality, be diversified, invest in patience. It still applies.

Remember this: The "price" you pay for the higher returns that stocks have delivered over time is the uncertainty of "when" those returns will come through and the volatility of the journey. Is the price worth the payoff? If someone is short-term minded, probably not. But note this: after the large decline of the past few days, the S&P 500 is up 12.1% per year over the past three years, 14.5% per year over the past five years, and 6.6% per year for the last 10 years (which includes the 2007-2009 meltdown bear market). Is it worth it? Only you can decide for yourself. I certainly believe it is – and I invest accordingly. As for now, I suggest that long-term investors sit tight and ride this out. This, too, shall pass.