FREE
THE CLIENT LETTER
MONTHLY NEWSLETTER
Pinnacle Asset Management
a division of Pinnacle Bank
Brick W. Sturgeon, Jr.
7651 Highway 70 South
Nashville TN 37221

Raymond James Financial Services, Inc
Brick W. Sturgeon, Jr. – Financial Advisor
Phone: (615) 743-8301
Email: brick.sturgeon@raymondjames.com

Market Corrections

February, 2021

Friends

I had a client who has since passed that had a funny sarcastic wit about many things, including investing. "Brick", he said one time, "Why do they call it a correction when stocks go down? There is nothing correct about that. It should be called an ***incorrection***". I miss Jim and his funny observations.

In the last letter I outlined what a secular bull market looks like and made the case that we are still perhaps in a longer-term uptrend that started from the financial crisis in 2008-2009. However, markets cannot go up in a straight line any more than the Titans can score 50 points every game (which apparently without a defensive coordinator, they need to do!).

Markets must pause or decline in what are generally known as "corrections". Technically a market correction involves a decline of 10-20% in stocks and often can serve the purpose of letting air out of an inflated market.

First, let's address why stocks go up to begin with. Contrary to what many believe, it's not because of the election, a virus, or any eye-grabbing headlines. Stocks go up for only one reason: **because more people want to buy them than want to sell them at that particular time**. This can be for a myriad of reasons of course, but I believe the most important reason currently is the amount of cash on the sidelines earning precious little interest. According to Kevin O'Leary from Shark Tank, money goes where it is treated the best. Well, I can tell you dear reader, at nearly 0% interest rates, cash is not treating money very well at all. At some point investors will seek a return to keep up with or outpace inflation. And lately they have viewed stocks and real estate as the best vehicles to do this.

Think of it as the opposite of yelling fire in a crowded theater. At the moment everyone is trying to get tickets ***INTO*** a theatre with limited seating. This equals....you got it....***higher priced tickets***.

This phenomenon can cause stock prices to rise beyond what many believe is a prudent valuation. I believe this could be the case currently but it doesn't mean the end of the longer term uptrend.

To wit, consider below the market corrections we have experienced in the past three years as measured by the S&P 500: (Note: The S&P 500 is an index of stocks used to give an indication of overall market conditions and is not an actual investment):

10% decline in January, 2018
20% decline in fourth quarter 2018
38% decline in first quarter 2020
10% decline in June, 2020
10% decline in September, 2020

If armed with only the above stats, one might think stocks were a poor investment. Yet at the time of this writing, many stock indices are at or near all-time highs. Which reminds me of another investment myth: Just because stocks are at all time highs does not mean they have to drop precipitously anytime soon. We have received several calls from clients that are worried because the market has reached all-time highs. However, history suggests that even when stocks achieve a new high, they can sometimes continue higher for an extended period. In fact, The S&P 500 made 31 new highs in the past year, begging the question: "Which one was the ***last*** one?" Who knows…

Of course, the financial crisis of 2008 may still be fresh in everyone's mind but folks, I can make a case that this market is not as overpriced as it may appear. Because of the way market indices are weighted, they have been dominated by the rise of a relatively few high-priced, namely technology stocks. However, the average stock in the overall market is not at an all-time high and many sectors have not even gotten back to the levels they held in 2018. Even the battered energy sector, which has been out of favor for multiple reasons, is still below levels it held in 2014. According to **Valueline Investment Survey**, if we simply look at the average stock without overweighting technology, that market index has gone virtually nowhere for three years.

The important distinction, in my opinion is that of a correction vs. a secular bear market in which stocks underperform for many years (such as they did from 1999-2009). Folks, corrections are normal...they are customary…they are necessary…and perhaps most importantly, ***they are healthy***.

As for what to do when they happen? First, I do not suggest trying to time them. They occur too frequently and are too unpredictable for the average person to anticipate. Instead, I suggest using them as a buying opportunity.

Nick Blackstein, portfolio manager of Dynamic Funds recently said he felt the market was poised for a correction but was still constructive on longer term. He offered the following options in dealing with routine market declines:

1. Be strategic and buy shares when the market corrects.
2. Set up a systematic monthly investment plan that will automatically take advantage of market declines. (Note: This is known as "dollar cost averaging" and causes the investor to purchase more shares with the same dollar amount whenever prices fall and fewer shares when they rise). Buy more low, right?
3. Invest now and don't look at your statement but every three years.

I must say I love his 3rd point perhaps the best. Long term means long term. If you went to sleep three years ago and just now awoke, judging from where the market is, you could never have guessed what transpired. And as far as market forecasting, I offer this question: **If an investor was not able to imagine what has taken place over the past three years, what makes them qualified to forecast the NEXT three?** In the words of my late friend Jim, "There is nothing *correct* about that".

Note on Tax Forms:

As a reminder, Raymond James tax forms usually come out around the first week of February. However, it is not uncommon for some clients to receive an amended copy. In such cases, these generally come out around the end of February. My advice is that you can prepare your taxes with the initial tax forms but I would hold off on filing until mid-March just in case you get an amended copy. Just FYI.

As always, we thank you for your business, your friendship and the trust you place in us. Feel free to share this letter with anyone you feel may benefit. Edie and I are in the office daily and happy to answer any questions you may have. Until then, wishing you health and happiness.

Regards,

B. S J

Brick Sturgeon, Jr.
Financial Advisor, RJFS
Pinnacle Asset Management
A Division of Pinnacle Financial Partners
7651 Highway 70 South
Nashville, TN 37221
615-743-8301
615-646-4538 Fax

"2017 RJFS Chairman's Council Member"
"2019 Forbes Best-in-State Wealth Advisor Tennessee"
"2019 Bank Investment Consultant Top 100 Bank Advisors"