Muddling Through Market Turbulence

These days, it seems as if triple-digit market moves are the new norm. Although it was only a few short weeks ago when the media trumpeted news of the single biggest point drop in market history. All of which amounts to so much rubbish since points on the Dow by themselves rarely mean all that much. What's more, over the last year and a half there has been a near-total absence of volatility accompanied by a relatively steady advance.

The reality is that the recent pullback was not much more than a dip when compared with the historical records, the biggest of which was the one-day plunge of more than 22% that took place on October 19, 1987. Yet, despite that drop, the Dow ended up that year with an increase of 5%. Go figure.

What's going on now really isn't much of a surprise. Give or take a hundred or even two hundred points, those kinds of moves don't even amount to a 1% change. Indeed, as the level of the Dow climbs, the daily changes will widen on a point basis, but the percentages are what counts.

Some days, the media talks about how the market is comfortable with the prospect of rising interest rates and inflation. Other days, it's just the opposite. These reasons (excuses?) are meaningless.

What is meaningful is the reality that short-term market price movements are virtually all reflections of changing psychology on the part of investors. If future prospects look bright, people are optimistic and will pay higher prices for stocks. And vice-versa. So whenever those who would have you believe that they are seers pontificate on the underlying causes of current market activity, it would be best not to take this stuff seriously.

With that said, however, there is a significant correlation between the underlying fundamentals of individual companies (as well as the overall market), but that correlation becomes increasingly evident over longer periods of time. For that reason, there are occasionally opportunities to invest at unusually attractive prices when investors' comfort levels are low and prospects for companies are improperly evaluated.

When the crowd is buying, it's time to think about selling. And "when there's blood in the streets", it's probably a good time to buy."