Jun 4, 2015, 01:16pm EDT

# What To Do When The Stock Market Drops 1800 Points

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**This article is more than 6 years old.**

The Dow Jones Industrial Average (DJIA)- usually what we refer to when we say the stock market- has seen double-digit percentage gains every year since 2010. So would it surprise anyone if the stock market, which is up 100% over the past 5 years, comes down by 10%? After all, what goes up, can come down.

What if we said this another way? A 10% decline in the market equals an 1800 point drop. Now that gets people's attention because the number sounds so big. Hearing that the market dropped 1800 points will likely freak out a lot of people because most are not emotionally or financially prepared for the decline.

To calm these fears ahead of the downturn, let's understand what a correction like this means:

1. **It's normal:** When I tell people that the market is going to come down by 1800 points, they may feel like it's an enormous correction or even a crash. Granted, 1800 is a big number, but we need to keep in mind that a 10% decline is normal and even healthy for the market.
2. **It's not a crash:** An 1800 point drop brings the market back to where it was early last year; giving up a little over a year of gains.
3. **It's expected:** A correction in the market typically happens every 2.1 years according to Crandall Pierce. We are likely overdue as we haven't

experienced a 10% correction in over 3 years.

It's understandable that investors get caught up in the excitement as the market reaches new highs. The American Association of Individual Investors (AAII) conducts a survey called the Sentiment Indicator which measures how optimistic investors are about the stock market, and recent results show that 75% are bullish and neutral.

This confidence is evident in how people are investing by the amount they have invested in stocks. According to AON Hewitt, retirement plan investors have a greater percentage (71%) in equities than any time in the past six years. But confidence can quickly turn to panic when the market reverses course.



If we know that a correction is inevitable, what should we do?

First, accept that this is normal. No one knows when it will happen. It may be this year or next, but a 10% correction is inevitable at some point.

Realize that it will likely be extremely frustrating. Now, if it happens in a day, then it's a big deal, but chances are it won't. The market will decline a bit, followed by a false sense of hope when it goes back up a few percentage points. Expect this to drag out and drive us crazy.

Most importantly, have a plan.

At Glassman Wealth, our plan is to do nothing. This doesn't mean that we haven't been preparing our portfolios all along, it means that we're not going to panic when the time comes.

In talking with clients about a market correction, I explain that we didn't think the market was an amazing bargain last year when it was 1800 points lower, so a 10% decline is not necessarily a trigger to go all-in with stocks. It may feel like a huge decline, but put into context, it doesn't mean that there are big bargains to be had.

If this type of correction will make you freak out, my advice is don't wait, make your move now. Stalling and then panicking is never a good strategy. Think about what you will do when the market drops by 1800 points. My hope is that you won't do anything when it actually happens because you will have already made your adjustments. Read: A Review of the Worst Investing Strategies

Are you over weighted in stocks because of the growth in equities over the past few years? If this is the case, now may be a good time to rebalance to the allocation you originally intended. When there is a 10% drop in the market, your plan may be to rebalance at that time and buy at lower prices. Whatever strategy you choose, what I hope you don't do is to wait, and then when the market drops, freak out and sell. You've just locked in your losses.

I'm not going to guess whether the next move in the market is 10% up or down, I just know that at some point a correction will come. When it does, an 1800 point drop will feel terrible, the news will be covering it 24/7, and we'll stop talking about the Nats because everyone will be talking about the stock market.

This is exactly what I'm preparing my clients for. I hope that I have had enough conversations with them so that when the day comes, if there were any moves to make, we have already made them.

Hopefully, what you will take from this article is that a 10% market correction is normal and healthy and that you have prepared for it. When everyone else is freaking out, you will go about your normal activities and keep cheering on the Nats or you're favorite team.

**Barry Glassman**

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