

# Lessons to Learn from the Early 2018 10% Stock Market Decline

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*In early 2018, the US stock market took about a 10% dive, followed by a partial recovery. What lessons can we all learn from the 10% decline?*

## 1. The stock market is volatile.

Since 2009, the stock market has quadrupled in value. This has given many investors the impression that the stock market does nothing but go up. Those

of us with more grey hair (or less hair, in my case) have invested during market declines and know that what goes up can also come down.

Here is a telling chart that shows you the volatility of a portfolio constructed of various portions of stocks and bonds (Source: Vanguard.com):

Stock/Bond Ratio	Maximum 1 Year Decline	Maximum 1 Year Increase
100% Bonds	-8%	+32%
80% Bonds/20% Stocks	-10%	+30%
50% Stocks/50% Bonds	-23%	+32%
80% Stocks/20% Bonds	-35%	+45%
100% Stocks	-43%	+54%

All investors need to take a hard look at this. Notice that a 100% stock portfolio has dropped as much as 43% in a year. In other words, the 10% drop was nothing.

## 2. Everyone needs a plan they can stick to during market declines.

One of the biggest mistakes investors can make is to sell low. For this reason, you need a financial plan that you can stick to during market declines.

For example, my current overall target asset allocation is 80% stocks and 20% bonds. This is based on my own risk tolerance and retirement time-frame, and I know I can stick to it.

What did I do during the stock market decline? I purchased more stocks. Why? It had nothing to do with the decline, and everything to do with my plan.

When it was time to invest, I took a look at my desired asset allocation of 80/20. I saw that I had less than 80% in stocks, so I purchased more. It was that simple.

Everyone needs a written personal financial plan so that when the seas get rough, you don't bail out. You stick to your plan. My plan was 80% stocks and 20% bonds, and I stuck to it.

What is your plan?

## 3. Regularly re-assess your own personal risk tolerance.

We've established that a 10% stock market decline is not a big deal. It could be much worse.



It is time for some serious introspection. How did a 10% decline make you feel? Did you sell stocks low? Did you seriously contemplate it?

Me? As I already discussed, I just marched on with my plan, which is what I'd encourage you to do, but everyone is different.

If the decline spooked you a little, you need to reassess your personal risk tolerance. My favorite way is to take the Vanguard survey (<https://personal.vanguard.com/us/FundsInvQuestionnaire>). There are other ways, though. It could be a conversation with your financial planner. It could be sitting down with your significant other and carefully examining the chart above and talking about it. It could be by getting a second opinion on your plan (<https://www.whitecoatinvestor.com/getting-a-second-opinion-podcast-41/>).

Whatever it is, you need to do it. For me, it is something I do on an annual basis.

## The Bottom Line

Here are the three lessons we all need to learn from the early 2018 10% market decline:

1. The stock market is volatile.
2. Everyone needs a plan they can stick to during market declines.
3. Regularly re-assess your own personal risk tolerance.

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