

The Dow Dropped. Do Not Drop Out of the Market.

Last Monday's plunge was hardly the disaster that some media outlets claimed.

Provided by David H. Smith

On February 5, the Dow Jones Industrial Average took an unprecedented fall. The benchmark dropped 1,175 points, and it was down 1,500 points at one moment during the trading day.^{1,2}

Monday's Dow loss was severe, but not as catastrophic as certain headlines trumpeted. The index fell 4.6%, which is today's equivalent of a 652-point dive back in October 2007 when the Dow reached its pre-recession closing peak of 14,164.43. For some recent perspective, consider that the Dow took a 610-point dive the day after the United Kingdom voted for the Brexit in 2016 – and over the following 20 months, it ascended to record heights.^{1,2,3}

The Dow actually witnessed an intraday correction Monday. At the bottom of the plunge late in the trading session, it was at 23,923.88, which was 10.1% beneath its last record close of 26,616.71 on January 26. It finished Monday's trading day off 8.5% from that January peak.^{1,3}

As for the S&P 500, it finished Monday at 2,648.94, about 7% below its last record close of 2,872.87.^{1,2,4}

Corrections happen. It has been so long since the last one (early 2016), many investors have forgotten the frequency with which they normally occur. Corrections can counteract irrational exuberance, and bring some rationality back into the market, which can be good for Wall Street's collective health.²

Fundamental economic data is still strong: as an example, the Institute for Supply Management's service sector purchasing manager index just came in at 59.9 for January, a 13-year high. This was just one of many recent strong indicators.²

Pullbacks and corrections will always occur on Wall Street, and sometimes the bulls turn tail and run. It is part of the long-term story of the market. This Dow pullback was extraordinary in its four-digit depth, which was to be expected someday with the index above 26,000.

This was a moment in stock market history. Thankfully, it is not the norm in that long history, as any glance at stock market cycles will reveal. At times like these, it is a good idea to avoid making hasty decisions, keep the long term in perspective, and realize that corrections are part and parcel of stock market investing.

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Citations.

1 - cnbc.com/quotes/?symbol=.DJI [2/5/18]

2 - marketwatch.com/story/us-stocks-poised-for-fresh-selloff-as-dow-futures-slide-120-points-2018-02-05 [2/5/18]

3 - thebalance.com/dow-jones-closing-history-top-highs-and-lows-since-1929-3306174 [2/5/18]

4 - fedprimerate.com/s-and-p-500-index-history-chart.htm [1/31/18]