How to Deal With The Recent Stock Market

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The stock market is something that doesn't make sense to a lot of people. How can my money turn into more by representing this invisible form of ownership? This confusion is why there are people who invest your money for you. But even with that route, you aren't human if you don't want to know how your investments are doing. In this article, we'll cover a brief synopsis of the market today and over the past year, what that means for you as a shareholder, and how taxes can relate to the performance of the stock market.

The most notable event in the past year is the stock market downfall from August 19th to August 25th. This happened in response to concerns about China, and what they were up to financially and militarily. Radioactive foreign relations with a country that is responsible for an overwhelming amount of our imports and centers for production can be frightening for shareholders and investors in general. This scare led people to pull out of the market, taking their money and running before a negative externality sent the market spiraling further downward.

However this scare is the same panic that led to the 1929 stock market crash. You see your buddy selling his Apple stock so you dump it too. The herd mentality is tough to let go of.

Something to consider- Fidelity's Magellan fund has returned an average of 16.2% since inception. That is amazing. But over 85% of investors lost money in Magellan. Why? They tried to time the market.

How could a crash in the stock market relate to taxes?

This is actually a very good answer for you to know even if you aren't actively involved in the stock market. Taxes have an inverse effect on consumption, meaning that when tax rates go up, consumption decreases because people have less disposable income and the market contracts. When tax rates go down, consumption increases because people have more disposable income of which they can invest in companies, and purchase goods.

While this is a theoretical exercise in a classroom, taxes have more of impact on people's confidence. If a person hears that taxes are increasing, they quietly pull back spending. Not directly because there is less in their checkbook, but because of the chilling effect.

When there’s an extended period of decreased economic investment, a recession, then the government will look to lower the tax rates to essentially give the people more spending money. If there is an extended period of economic expansion, usually leading to gross amounts of inflation, then tax rates will be higher in an effort to contract the market and keep it somewhat steady.

The current stock market has basically recovered from the August 2015 downfall, a self-correcting feature aided by government intervention. So what you need to know is that your money, unless pulled out at the wrong time by your financial advisor, is basically back up to the value that it was at the start of the year since we’ve recovered some in Q4. Our market is a wonderful thing (especially if that penny stock turned into Apple) and a great way to make money, but it is also a never-ending stress generator.

Financial Advisor

A lot of people say to themselves Hey, I don’t need a financial advisor. I can do this myself. Sure, of course you can. But if you think that throwing some money at a mutual fund and tinkering with some stock is being your own financial advisor, then you might be mistaken. It is far more involved and comprehensive than just investments. Wealth accumulation is one thing, preservation and transfer is whole other ball of wax. For more information on choosing a financial advisor or financial planner click here.