What Will Happen During the Oncoming Next Stock Market Correction?

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Imagine owning an investment–let's call it 'Investment H'. Now, imagine this about "Investment H": it has no known value, until you are forced to sell it; and the only way you would know about your "Investment H" would be from rumors in the newspaper or when speaking to your friends.

Unfortunately, the rumors of its value could cause you to be generous or stingy; and the perceived value of "Investment H" would statistically determine most of your major buying decisions. One thing you do know, is that this major investment is owned by a lot of people your age, with similar income. Incidentally, the only determining factor of whether or not you could own this investment, was a credit score.

IF at any time, you wanted to sell "Investment H", you would need to accept the fact that it might take months, or even years, to sell. And, IF you were able to sell it, you might receive much less than you originally thought… and be subject to a 4%-6% commission upon the sale.

Oh yeah, on top of the commission, if you are even able to sell "Investment H" during the entire time that you owned the investment, you would have been required to insure at an average cost of 5%-10% of the principal value each year…just to maintain its value.

OK, now let's switch gears.

Imagine owning another investment–let's call it "Investment S". This investment is constantly valued, regardless of whether or not you chose to sell it. The cost for selling it can be from only $1 – $30…which equates to less than ¼ of 1% of the value when you sell.

And, unlike "Investment H", you can always get your money when you sell, usually within 3 days; and you can almost always sell it the same day you want to sell it. If you happen to read about your investment in the newspaper or hear from your friends, it probably will not change your feelings towards how you live your life. The cost of maintaining your "Investment S" is very low, sometimes even free. And, best of all — you do not need to insure your investment.

So, between the two investments, "H" or "S", which would you like to own? I'm sure, that after reading the attributes and benefits of each investment able, you would be like most people, and would choose "Investment S". Whenever I give this analogy, most people are in agreement about the downsides to "Investment H", stating:

1. The thought that every time they have to sell it, they have to pay a large commission

2. How hard it could be to sell, and thus the fear of owning the investment in the first place

3. Now knowing the value, until it was sold

4. Etc.

Of course, no one would knowingly choose “Investment H”, right? Wrong. In fact, most people own “Investment H” … and NOT “Investment S”. But, thankfully, that is starting to change.

So, if you haven’t guessed by now, “Investment H” is for a House or a Family Home; and “Investment S” is for Stock or Stock Market. Is there a correlation between property values and stock market values? In the past, there was a perception that when one asset class fell, another rose.

For example, if you own gold, and the stock market corrected downward, your gold would go up an equal percentage of the downward decline. Or if the stock market increased, then gold would decline in equal percentage of the increase. Both of these statements have been proven wrong in the last 5 years; gold is up and the stock market is up.

Is there a correlation between real estate increase and stock market increases? The answer is yes, there is a strong tie of property value increase to stock market increase. Part of the reason of this newer correlation is the creation and importance of REITs and newer versions of the commercial mortgage-backed securities. As real estate starts to become publicly traded, the correlation between the capital stock markets and individual real estate will become more aligned.

What does this mean to me? The answer is really simple: as the stock market prepares to enter the final stages of this election cycle, more and more volatility will happen. You, need to mentally prepare yourself for the ups and downs…in not only your 401(k) and stock portfolio, but also your perceived value of your home.

How would you feel if your house value dropped 20% by years’ end? What changes in your spending would you make? I am not trying to scare you, but I do want you to be prepared. This election is certain of one thing – a lot of change. And you need to be prepared for the worst, hope for the best, and protect yourself as much as possible. And if you happen to have more of “Investment H”, than other types of investments, you may want to think about diversification BEFORE the election.

Which type of investment do you currently have? Email us at info@weisseducation.com and we will share the results in our next article.

Remember, plan today… protect tomorrow.

Until Next Time,

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