First Investors Funds

Market Commentary

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Brian Watts, CFA®
Director, Research and Strategy

Brian Watts is Director of Research and Strategy for Foresters Investment Management Company, Inc. (FIMCO). Brian is responsible for several areas, including oversight of subadvisers, new manager search and selection, investment strategy development, asset allocation study and tools, development and management of new advisory portfolios and product development. Brian has more than 20 years of experience in the financial services industry, having worked at Fortune 500 financial services firms developing and overseeing investment platforms.

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Market Correction? It May Be a Buying Opportunity

U.S. stocks are volatile right now and investors are rightfully asking themselves whether the bull market we've enjoyed for the past six years may finally be over. Of course, there's no way to know for sure whether an extended market downturn is around the corner or months away until it actually happens.

What we do know, however, is that the most recent bull market far outlasted most other bull markets historically, suggesting we have been due for a market correction for some time. (A correction is defined as a stock market decline of at least 10 percent.) The average bull market has lasted less than three years, and we've been in this bull market since March 2009—nearly six-and-a-half years. The Standard & Poor's 500 has nearly tripled in value in that time.

While the recent market drop can be painful, here are some facts to help put things in perspective:

- The current "bull" market we have been experiencing has stretched nearly 76 months, since March 2009 with a gain of 215 percent. A 10 percent decline in that context is not devastating.
- Market declines are a normal occurrence, and part of the business cycle. Typically, declines of at least 5 percent occur 3x a year, with the last occurrence in December 2014. Declines of 10 percent occur less frequently, but normally at least 1x year, with the last time this happened being October 2011, nearly four years ago.

The Upsides of Downturns

Rather than worrying too much about whether your portfolio might experience a decline in value, remember that corrections are a natural part of the economic cycle. They help prevent market bubbles, like the dot-com bubble that burst in the late 1990s that sent stocks nose-diving and put many tech startups out of business. They're called corrections because they fix imbalances and generally help spur healthy, long-term market growth.

Corrections can also be great buying opportunities. Remember the mantra "buy low, sell high"? Many U.S. stocks have looked pricey in recent months. But a correction could possibly return many stocks to fair or even low valuations. This can be good news for those with money to invest.

Riding Out the Storm

The worst thing you can do when stocks start falling is to sell them out of fear. History has penalized investors who do that, because those investors inevitably miss out on the market upswing that follows the correction. Again, it's nearly impossible to time an upswing correctly, just like it's impossible to time a downswing correctly. The market upswing is usually far greater than the downturn—rewarding those investors who hang on for the ride. A good example of this was August

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21-28. On Monday August 24, at one time the Dow was down over 1,000 points. It continued to drop on Tuesday. However, the Dow quickly recovered and ended the week up 1.11 percent.

The best thing you can do during a market correction is to sit tight and remember that market corrections are a healthy process. Use it as a time to evaluate your portfolio and make sure you are adequately diversified across stocks, bonds and other investments. Although there can be no guarantee, a well-diversified portfolio will generally fare better during a market decline. You may even view the decline as a potential opportunity to invest more when prices are lower.

Benefits of Staying Active

History has also shown that market declines and volatility favor active management—fund managers who actively select securities for their portfolios versus those who are "passive" and simply track an index such as the S&P 500. Active managers have the ability to analyze individual investments and select those that are right for the specific market climate. They can look for those stocks with the most attractive valuations that appear positioned for growth.

Currently the headlines are talking about the weakness in the Chinese economy. Active portfolio managers can look for securities that are somewhat insulated or can even benefit from the weakness.

It may be a good time to consult with your Foresters Financial Representative. He or she can help you review your portfolio to ensure it is well-diversified for the current market climate. He or she can also help you develop a plan to meet your long-term goals.

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40 Wall Street, New York, NY 10005 / **forestersfinancial.com**

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