What's going on with the stock market?

By J. Wayne Burritt | In: Finance

On May 5, the S&P 500 — a good proxy for the broader U.S. stock market — closed at 1326. Just over a month later, it stood at 1237 — nearly 7% lower than its former self. Is that important for SMBs? Yep. And here's why …

When investors sell stocks, it means they simply don't like them as much. Most of the time, that's due to something gone haywire with the company. Maybe its products are not so hot … or financial performance has been lousy … or there's been a significant change in management. In other words, the company's "fundamentals" aren't as great as they used to be. And that leads investors to sell the stock.

What's happening in the recent sell-off is different. Investors are selling any stock they can get their hands on. And they're doing that without much regard for how the individual companies have performed. So, even if you're company is going gang-busters, they're selling your stock and bidding the price down.

At a basic level, that doesn't sound fair. After all, if your company hasn't done anything wrong, why should you suffer through a lower stock price? The simple answer is that stock price doesn't always equal value — and that's just the way it is.

But think about this: The true value of a good company hasn't changed one iota since the sell-off. They still have the same products, the same management, the same quality financial performance. So, by selling their stock, a good stock is being made even cheaper. Sounds like a buying opportunity to me.

But why are investors selling stocks without regard to value? Well, here’s a scenario: Investors think the Fed is going to keep raising interest rates because of potential inflation. That means that the money supply will likely get tighter for consumers and businesses alike. That crimps expansion and spending, which in turn depresses prices, sales, and profits. And without those sales and profits, companies become less valuable. Result: Investors sell stock.

But that’s not all. Rising interest rates may not be great for companies or consumers, but they are good for *some* investors. That’s because those higher rates mean more return from interest-related investments, like CDs, bonds, and treasury products. And since many of these carry fixed returns and even guaranteed protection from loss, they look nice compared to the big bad stock market. Result: Investors sell stock.

How long will the sell-off last? When investors take a look and begin to see value again in the stock market. In the meantime, hold on!

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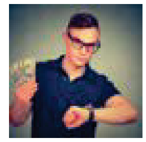

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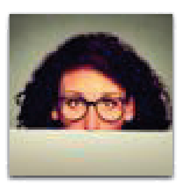

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