



## Special Economic Update

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**Wow**—are we on a rollercoaster? If you've been feeling like the stock market has been much more volatile lately, guess what? You're right!

For the last few quarters we've talked about the equity markets getting more volatile and the potential for a market correction, but nothing rattles investors quite like the storm after the calm.

If you feel shaken, that is understandable. Volatility is back. After trading in a lateral eight-month range for the duration of 2015, major equity market indices made a directional move last week. A massive selloff kicked into high gear on August 21, 2015 when the Dow Jones Industrial Average reached official correction territory, which is defined as a drop of 10% or more. Wall Street is still trying to gauge what will stop the landslide and stabilize the battered market. Fear and panic are setting in as no one knows how bad the ultimate decline will be, and the media is not helping investors by constantly warning us to watch out for when it's safe to dive back into the market.

The sharp market decline has been driven by growing fears that China's economy, the world's second-biggest and once the engine of world growth, is slowing more than many investors had thought. This raises fears that a global economic relapse will ensue, hurting corporate profits for companies in the U.S. Couple that with dropping oil prices along with fears of a rate hike and investors are feeling the response.

Market volatility isn't bad in itself—it is your reaction to it that matters the most. Many psychological experiments have shown that the



stress induced by watching a volatile market may lead you to try to lock in your gains, especially your best returns, often before you should. Yet the stock market is no more or less predictable today than it ever has been before.

The thousand-point drop of the Dow Jones Industrial Average on the opening of Monday August 24<sup>th</sup> was heart-stopping, but the decline by midday was significantly less. For perspective purposes, the recent market decline is less than half the 22.6% drop that the Dow Jones Industrial Average experienced on October 9, 1987.

For some investors, it's hard to resist the temptation to react impulsively to the market drop. During turbulent times, many investors have been taken from one extreme to the other, celebrating as stocks soared to unprecedented highs and suffering as equities endured some of the steepest declines on record.

Here are some facts to think about:

**According to experts, this is nothing like the 2008 crash.** The economic situation back then was

dismal. Many analysts say that the stock-market crash in the fall of 2008 would have kicked off a full-blown depression if not for aggressive government intervention. That's not happening now. The nation's biggest banks were at risk of failing in 2008; they're in good shape today. In 2008, millions of homeowners had mortgages they couldn't pay, which marked the beginning of a foreclosure epidemic. Today's situation is not like 2008.

(Source: Yahoo Finance 8/24/15)

**Stocks are still up sharply over the last 6 years.** The current bull market rally began in March of 2009. The S&P 500 is still up over 170% since then -- a huge rally. In that context, the 10% decline we've seen this year is a tiny squiggle on an otherwise upward line.

(Source: Yahoo Finance 8/24/15)

**The U.S. economy is not looking problematic.**

It's not growing as rapidly as it did in the past, but it's still growing. Employers have added nearly 1.5 million new jobs this year alone, and 11.6 million during the last 5 years. Consumers are spending more, the housing market is finally improving and auto sales are on pace for the strongest year ever. The risk of another recession is just 8%, according to Moody's Analytics.

(Source: Yahoo Finance 8/24/15)

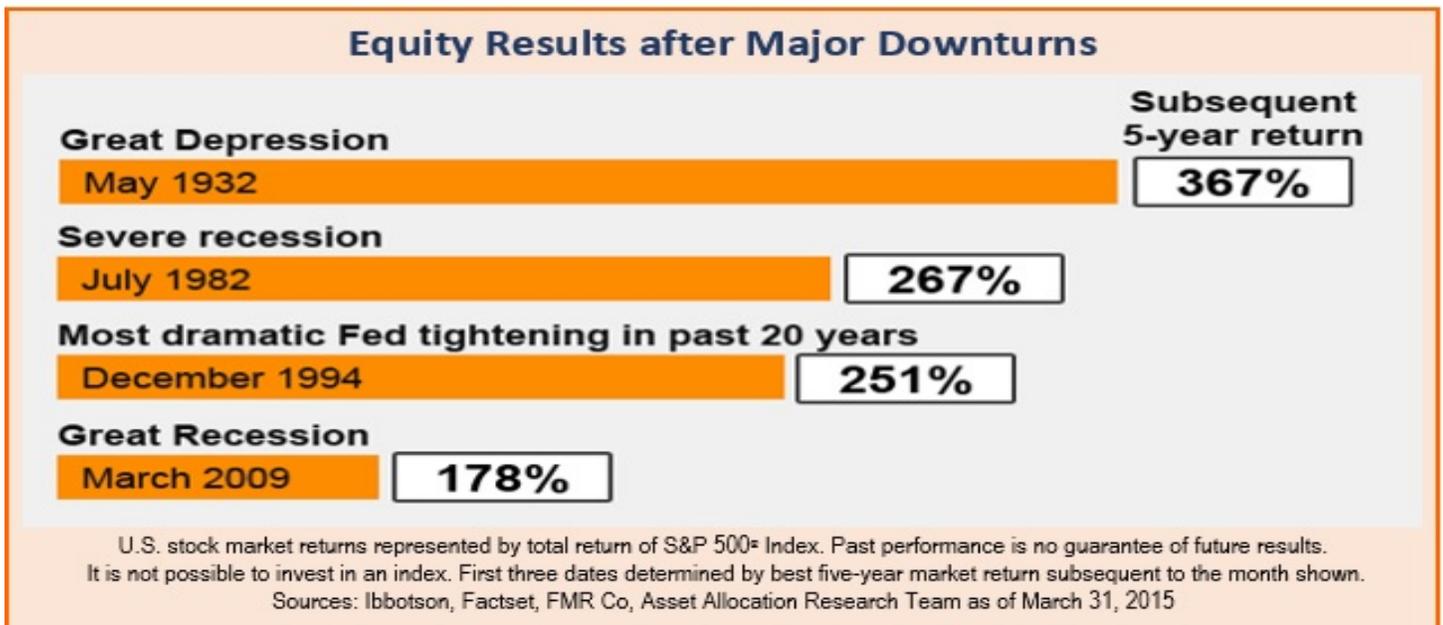
The steady advance in the broader stock market since early March 2009 had to end eventually. No market advance in history has proceeded without periodic pullbacks. Stocks could test lows reached after a brutal market open Monday, but equities should burst through a summer slump in the coming months, longtime bull and Wharton School Finance professor Jeremy Siegel said. He adds that, "Once this storm passes, I think the fourth quarter could be very good."

(Source: CNBC.com 8/24/15)

## Conclusion

The significant volatility over the last several days illustrates continuing confusion about growth in China, concern about the instability of oil prices and fear that interest rates will be rising.

Given the recent volatility and the returns on equities, many investors' concerns about equity investing are understandable. In fact, the recent volatility may have changed the way some investors think about their portfolios and diversification. However, it would be wise not to make too many drastic changes at this point before you consider the following general rules of thumb:



- 1. When investing in equities you should maintain a long-term view.** This approach requires holding enough money in liquid assets to cover personal expenses for the foreseeable future, along with an ability to look beyond the short-term and maintain a steady hand during times of volatility. An adequate emergency fund should help prevent you from being forced to sell your portfolio during a Bear market.
- 2. Remember the old adage, “Be fearful when others are greedy, and greedy when others are fearful.”** This important guiding principal could be seen during 2008 and 2009. Those who sold their stocks in fear when the market was at its worst simply turned paper losses into real ones. Those who bought during this period may be looking at healthy gains. Many investors that simply held through it all are essentially back to where they were before the crisis began. Whether 2009 was a good year or not is merely a matter of perspective.
- 3. Practice patience.** Many money managers think that times like now provide a holding or potential buying opportunity. Should you have any fears or questions, then call us. We are here to help!
- 4. One of Sir John Templeton’s “Rule’s for Investment Success” was “Do not be fearful or negative too often”.**

Once again, as we have mentioned in this report, it is not time to panic. The recent market turbulence reminds us that it is always a good idea to re-evaluate your current financial situation and confirm that your risk tolerance, goals and needs are still

appropriate. We will be doing this at our next review, but if you feel you would like to do this sooner, do not hesitate to call us immediately!



**One of our primary goals is to make sure you are comfortable with your investments.** Equity markets will continue to move up and down. Even if your time horizons are long, you could see some short term downward movements in your portfolios. Rather than focusing in on the turbulence you might want to make sure your investing plan is centered on your personal goals and timelines. Peaks and valleys have always been a part of financial markets.

**As always, thank you for having the confidence in us to help you with your finances.**

**P.S. Remember—the stock market is one of the few things that people don’t buy when it goes on sale!**

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Sources: Yahoo Finance; CNBC

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