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In our fall newsletter composed just a month ago, volatility was mentioned as a probability due to the new record highs achieved in September coupled with several economic events that were creating uncertainty. The recent volatility experienced, however, was faster and harsher than anticipated. The Dow Jones Industrial Average (DJIA) came within a 100 points of surpassing 27,000 in September – quite a climb. The markets have now corrected over 10% on most equity indices since then. This October has been the worst month since February 2009. We absolutely have some headwinds that we are not ignoring and we still have some very favorable tailwinds we think will continue to allow this market to recover and potentially grow.

The truth is there is a lot of uncertainty in the US and global markets right now. Nothing new, but the issues are still there. We have continued trade tensions with China. We have rising interest rates that are clearly impacting parts of the economy more than others. We have a rising US Dollar that makes foreign trade harder for US companies. With mid-term elections in November, tight races across the country make future policy uncertain and hard for the market to predict. These are all real issues, but it doesn't change the fact that US companies are healthy and the large majority have beat earnings again in the 3rd quarter. It also doesn't change the fact that US consumers are spending money and driving US GDP above 3% for the 2nd straight quarter. We do not feel like the current market volatility has any similarity to the market volatility caused by the Great Recession of 2008.

Most clients were extremely happy with their investment performance at the end of 2017. Back-to-back positive years in the market moved accounts higher. As we write this letter, we are within 200 points of where the DJIA was on December 31, 2017. The drop from record highs has been substantial. However, it is not as bad as it feels right now. The correction in February put the DJIA below 24,000. We are still well above that point at this time. Pullbacks and market corrections are never fun, but they do occur and will continue to occur. Unfortunately, this pullback has been magnified due to a drop in bond prices. The risk mitigating properties of bonds are working against us this year as interest rates climb.

October is historically the most volatile month of the year. Election years also tend to provide more impulsive fluctuations. We cannot tell you that the market is without any concern and there is no additional risk to worry about. We could go lower from here. The weeks leading up to and through the mid-term elections may give us more pain and anxiety as the market bounces around. However, we believe the end will occur and we will recover and retest the highs we experienced in September at some point in the future.

As always, please call us if you are nervous and want to discuss your portfolios. Our message remains consistent that we believe you should stay invested and maintain your portfolios. We feel we may look back on this time as a buying opportunity as opposed to a time for concern.

Sincerely,

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