Time To Buckle Up And Get Ready For A Bumpy Ride
Market Wrap - First Quarter 2018

A rough road ahead?

Welcome back to the real world. Last year's market, which went steadily upward with barely a hump or bump, is history. In 2018, **volatility is back** with a vengeance. And by the way, the roller coaster markets we've experienced so far this year are pretty typical of what markets "normally" do, so we should probably get used to it.

The January to March quarter was marked by wild, hundred point+ swings up and down, day after day. Markets streaked upward in January to set new highs, only to fall precipitously in February with 10% + declines. March brought even more price pullbacks, especially for the big tech market leaders (the so-called "FANG" stocks like Facebook, Amazon, Netflix and Google-parent Alphabet) which experienced their very own **"tech wreck."**

Asset prices across the board pulled back in the First Quarter, with the exception of emerging markets and cash, which eked out gains. It was the **first quarterly loss** registered by U.S. markets in over two years. Stock prices on the Dow Jones index were down 2.5% for the quarter, while the broader S&P dropped 1.2% before factoring in dividends. A benchmark portfolio of 60% stocks/40% bonds gave up 1.1% for the quarter.

There's no shortage of concerns spooking investors, including the prospect of rising rates, a potentially overheating economy, and stocks seemingly priced to perfection. Throw in growing trade frictions, international conflicts, the usual Congressional stalemate, and an aging bull market, and it's not surprising to see the markets start to stumble.

Results
as of March 31, 2018
(includes all dividends)

3-6 Mon TrBill	+ 0.33%
S&P 500	- (0.76)
Dow Jones	- (1.96)
Int'l Dev Stocks	- (1.53)
Emerg Markets	+ 1.42
Bond Index	- (1.46)
Nat'l Res/Comm	- (0.40)

And now for a little perspective

If that seems like a lot of bad news, just remember the words of the late, great comedienne Gilda Radner, who correctly observed that **"It's always something."** There's ***always*** something bad going on in the world, but that doesn't necessarily mean it's a bad time to invest. There are times, however, when we want to invest a bit more cautiously, and this is arguably one of those times.

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Keep in mind that pullbacks in the market are normal. 2017 was one of the calmest years on record for the stock market, but that's not normal or healthy. Look at the bright side of a pullback. It lets you invest in stocks at lower prices. It doesn't mean the "end is near;" it's just the market catching its breath.

Rates are headed upward, but that's good news for savers. The Fed hiked rates in March for the first time this year; you should expect additional hikes in June and December. Rates are still extremely low by historical standards, but you will start to pay slightly more for new mortgage or home equity loans, credit card debt and other borrowing. On the other hand, you'll also start to **earn more income** from your investments, and that's a good thing, especially for retirees who need to make their nest egg last longer.

We're treading a little more cautiously. We're beefing up investments with attractive valuations, like foreign and emerging market stocks. We are also adding investments that cope well with rocky markets, like stock funds with downside protection, floating rate bonds, and market neutral funds. We'll be fine-tuning and rebalancing investment portfolios to make sure your investment allocation is still right for you, and right for this market. In some case, that may mean holding slightly more cash and investing more slowly.

Diversify, diversify, diversify. The five biggest stocks in the S&P 500 this last quarter were Apple, Microsoft, Amazon, Facebook and Alphabet (formerly Google). At their peak value in mid March, those five companies made up 15% of the entire S&P 500's market value, more than the value of the entire financial, health care and industrial sectors, according to the Wall Street Journal. That can cause problems when the tech sector hits a rough patch, as it did in 2000, or the financial sector did in 2008, serving as a valuable reminder to us to diversify our investments and not overweight individual stocks or sectors. ❖

Pullback, Corrections and Bear Markets

There's a unique language to describe market declines. Here's some of the popular buzzwords:

- A 5% decline in the market is usually a **"pullback."** **Pullbacks happen about 3 times per year on average.**
- When the market is 10% or more off its highs, it becomes a **"correction."** **Declines of 10% or more happen about once per year on average.** Only about 1/3 of all corrections turn into bear markets.
- A **"bear market"** is a 20% or more decline. It is less frequent (fortunately!), and occurs **only once every 3 ½ years on average**. The last bear market occurred during the 2008 financial crisis. ❖

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