Lassus Wherley
Building Better Futures
...a View from the Top

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Is It Time to Worry?

In this special edition of a View from the Top we discuss the increase in volatility in the financial markets and share our thoughts concerning the longer term perspective.

Actually, it is time to take something for motion sickness. Volatility is back and probably back to stay for quite some time. The ups and downs of the financial markets are being driven by so many different factors these days.

Headlines are driving much of the volatility, with many different ones impacting the financial markets, ISIS, Ebola and other challenges we are dealing with in the global world today. We get an up market when we get solid profit announcements from companies. Then we get a drop the next day based upon another headline.

We are long-term investors, so we don't attempt to forecast what will happen tomorrow. However, we do know that the economy is still moving forward, companies are still making money and the current volatility will probably continue for a while but not have much impact on longer term financial market performance.

Our advice to you is take a deep breath and stay away from media outlets that keep predicting the end of the world as we know it. I worked with a client many years ago who called me one day and said that he was having to spend the day on his stationary bicycle so he could watch the news and relieve the stress at the same time. I recommended he turn his TV off. It is good to keep up with current events by watching or reading the news. However, be cautious about following those that use irresponsible headlines to pull in viewers or readers. They don't really inform, and they certainly aren't going to help you reduce the stress in your life.

Keep in mind that news is not only a business but also a business driven by viewership and ratings. And nothing increases viewership like sensational headlines.

Where Are We Now?

In our last View from the Top, we talked about the volatility we were seeing in the markets after a down-

turn in large-caps as represented by the S&P 500 of -1.38%, and in small-caps as represented by the Russell 2000 Index of over -6.0% in July. The markets then bounced back in August with large-caps gaining 4.0% and small-caps gaining 4.96%. We thought that September had the makings of a negative month for stocks. The S&P 500 backed up -1.40% in September, while small-caps were off -6.05% for the month. This back up in US equity markets for September was not unexpected given that September is historically a seasonally weak month for stocks, and given the strong performance we had seen in the markets for an extended period of time. The stock markets never go straight up, so a significant pullback in stock prices after such a strong performance is part of the normal cycle.

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Volatility has carried into October and will probably continue for some time. It is worth noting that October is historically a very volatile month for stocks and has, in fact, been the most volatile month for stocks since 1950. We have had 10 trading days so far in October that have been marked by at least a 1% move up or down in the markets, compared to 21 total for the entire year prior to October.

The bottom line is that we do expect to see more volatility in the short term as the market continues to contend with a variety of geopolitical risks, continued fear over the spread of Ebola, the Fed moving towards the end of monetary stimulus, continued concerns over global growth, mixed economic data domestically, and the possibility of rising interest rates.

Although we believe that these risks have the potential to continue to produce volatility in the markets in the short term, equities still represent good value relative to bonds based on longer term valuation measures. A diversified portfolio requires a healthy allocation to stocks in order to provide the return potential needed to help investors meet their needs and keep pace with inflation.

Investors also have significant amounts of cash on the sidelines, with more than $11 trillion in cash held in savings and money market accounts, money market mutual funds, CD's, and IRA accounts. These cash balances could continue to give this bull market legs, as investors find opportunities during pullbacks to put this cash to work.

Although there are plenty of things an investor can spend time worrying about during periods of market volatility, we continue to believe that investment in a diversified portfolio with long-term goals in focus remains the best way to manage the volatility in the markets and accomplish your long-term objectives.

The Latest Headline

One of the breaking news headlines from CNBC yesterday was "Consumer confidence hits 94.5 in October, vs 87 estimate." It is amazing how quickly things change when the headline news goes from negative to positive. Economists weren't expecting such a positive number with everything that has been happening but it looks like those job gains and the falling price of gasoline have helped to lift the spirits of consumers. It will be interesting to see if this mood carries on through the holidays.

Enjoy a wonderful Fall!

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