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

Issue 56, August 27, 2015

Here We Go Again!

Here are our thoughts about the crazy volatility and quick moves in the financial markets over the last few weeks.

The financial markets have given us one heck of a roller coaster ride over the last few weeks. Unfortunately most of it has been to the down side otherwise known as a loss of value. We know that times like this are painful no matter what we say. In one of our discussions the other day during the worst of a market drop, someone told me they really didn't mind the ups and downs of the market but they really hated losing money. We hear you and can absolutely relate to that sentiment.

Given all the crazy swings, we thought it was a good time to send you an update on our thoughts. First of all—breathe! Don't focus on the headlines and please don't track the market movement by the hour. These short-term moves aren't important in the overall scheme of a long-term investment program. Remember all those past down markets like 2008 and how quickly the market recovered.

Of course—you had to stay invested in order to have experienced that market recovery. So……...step back from that monitor where you are tracking your portfolio, and this craziness will pass as it always does. And please don't react to this volatility by taking action that you may very well regret. Remember why you invest in a diversified portfolio and repeat after me— I am a long-term investor not a trader.

As we discussed in our last few Views from the Top, we have expected continued volatility in both domestic and international financial markets. That volatility has increased significantly, driven primarily by headlines. We have talked a lot about China and Greece this year, which continue to be major drivers of the volatility we are experiencing. China is taking the lead in the current concerns about the world economy.

1 Academy Street, New Providence, NJ 07974
Phone: 908-464-0102
www.lassuswherley.com
3333 Renaissance Blvd., Bonita Springs, FL 34134
Phone: 239-495-1520

Both the S&P 500 and the Russell 2000, measures of large-cap and small-cap stocks, respectively, have officially entered correction territory after a very crazy few days of trading.

A correction is defined as a 10% drop from a previous high. Both the S&P 500 and Russell 2000 have met this criteria, with the S&P 500 down roughly 12.4% from its May record high, and the Russell 2000 down roughly 14.8% from its June record high, as of the close of trading on August 25. Developed international stocks and emerging market stocks have also continued to exhibit a good deal of volatility.

The global volatility we have been experiencing has been driven by a number of headlines, although a large part of the recent loss in value in stocks can be attributed to what has occurred in China.

The global volatility we have been experiencing has been driven by a number of headlines, although a large part of the recent loss in value in stocks can be attributed to what has occurred in China. With the 2nd largest economy in the world, China has long been looked at as the global engine for growth. That engine has stalled somewhat as economic growth in China has slowed. In our last View from the Top, we talked about the volatility occurring in the Shanghai Stock Exchange Composite Index (SSEC), which was up close to 110% over the last 12 months through June 30th, despite a large drop in the final two weeks of June. Selling continued into July, and despite some moves to the upside in the interim, the SSEC lost another 30% of its value through August 25. Much of these losses occurred this past Monday and Tuesday, with the SSEC losing 8.5% and 7.6%, respectively. These large losses, along with China's surprise move to devalue the Yuan in an attempt to help spur economic growth, are being looked at as significant factors in the recent downturn we are seeing in US stocks.

China has implemented controls in an attempt to slow the downturn in Chinese equities, such as halting trading at various points in time, putting a 6-month ban on the sale of shares by insiders, key executives, and other major shareholders of many companies, undergoing supportive buying of stocks, as well as providing additional liquidity and further cutting interest rates.

Then we have the ongoing uncertainty around whether or not Greece will remain a member of the eurozone, the timing for interest rate increases in the US, and further drops in oil prices which have also contributed to recent volatility.

The Fed has consistently stated that the timing for interest rate hikes will be dependent on US economic data, with a strong focus on the jobs market and inflation. Concerns over global volatility have become a factor as well. Although the exact timing for rate hikes is still unknown, the fact that a rate hike is on the way in the near future has been widely telegraphed by the Fed.

We are also seeing continued drops

in oil prices due in part to the economic slowdown in China, since China is responsible for a significant amount of global demand for oil. Another factor that may be coming into play, and that can certainly weigh on oil prices in the future, is the potential for large Iranian oil supplies to hit the market in the wake of a nuclear deal that would lift economic sanctions on Iran that are currently in effect.

As always, we believe you are best served by maintaining a long-term perspective, remaining well-diversified, and taking advantage of opportunities to rebalance during periods of market volatility.

Despite the global volatility that is occurring, there hasn't been a whole lot of change as far as the economic backdrop in the US, which has been one of slow growth. We continue to see progress in the jobs market with the unemployment rate currently at 5.3% and jobless claims continuing to hover around historical lows. Consumer activity is picking up, the housing market has continued to show signs of strength in recent reports, and inflation remains rather benign with the most recent core CPI (consumer price index) figure coming in at a yearly rate of 1.8% (under the Fed's target inflation rate of 2%). GDP growth did bounce back in the 2nd quarter from 1st quarter growth of 0.6%, with the initial estimate for the 2nd quarter coming in at an annualized growth rate of 2.3%. We then saw a significant upward revision in the 2nd quarter GDP growth figure to 3.7%, with the latest report showing strength in consumer demand, residential and non-residential investment, as well as improvement in net exports. The manufacturing sector has been a soft spot for the economy for most of the year, but is also showing signs of improvement recently.

As we experience this pullback in the markets, it is also important to remember how far we have come. Prior to the recent pullback, the S&P 500 was up roughly 210% through mid-August, from the market low on March 9, 2009. We typically experience a correction in the S&P 500 roughly every year and a half, and it has been almost 4 years since the last correction. Considering this, it is safe to say that we were due for a stock market correction. These pullbacks become a necessary and healthy component to continued long-term forward progress in the stock market. As asset prices return to lower levels and valuations become more attractive, investors with cash on the sidelines can start to look to step in and buy at lower prices. There are just under 11.5 trillion in cash balances on the sidelines, representing a significant amount of funds that can be put to work to take advantage of attractive opportunities.

Periods of higher market volatility are a good time to reassess your cash needs to ensure that sufficient cash is maintained for ongoing needs. We typically keep enough cash on hand so that significant adjustments/sales don't have to be made in periods of market volatility

such as this.

Please let us know if there are any significant changes in your situation or needs that may require an adjustment to your cash levels. It is also important to remember that although stocks are experiencing a good deal of volatility, there are other asset classes/ investments that are part of a broadly diversified portfolio, such as short-term bond funds, that do not experience this type of volatility and can be a good source of cash if needed.

We will continue to review and rebalance portfolios on an ongoing basis as we typically do, taking advantage of opportunities to reallocate to asset classes that have come down in value based on recent volatility. The process of rebalancing portfolios remains a disciplined way to take advantage of market volatility by following the cardinal rule of "buy low, sell high," while ensuring that your long-term investment strategy is adhered to.

Keep in touch and remember that you are a long-term investor regardless of what happens in the financial markets in the short term.

Enjoy the last days of Summer.

Diahann

Investment Committee:

Diahann W. Lassus, CFP®, CPA/ PFS, Chair

Vanessa Franco, Investment Analyst

Lisa McKnight, CFP®, Financial Planner

Chadderdon W. O'Brien, CFP®, FRM, Financial Planner

J. Charles Pawlik, CFP®, CFA Financial Planner

Deborah J. Rivosa, CFP®, CFA, Chief Compliance Officer, Director, Business Development

Betty S. Thomas, Investment Analyst

Compliance Disclosure

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Lassus Wherley & Associates, P.C. ["LWA"]), or any non-investment-related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from LWA. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. LWA is not a law firm and no portion of the newsletter content should be construed as legal advice. A copy of LWA's current written disclosure statement discussing our advisory services and fees is available upon request.