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3rd Quarter 2018 Market Review

10 Years After the Crisis

"A couple of weeks ago, after just walking in the door from work, my 5 year old daughter asked me if the market went up today. I smiled that she was clued in enough to even ask this question, and also that she seemed to care enough about me to be concerned. I told her that unfortunately, it had gone down a bit but it was not as bad as the prior days. She, without even lifting her head up from her coloring, said, "Well what the heck is going on? When is it going to go up already?" The smile came off of my face. Needless to say, the news had spread all the way from Wall Street to Main Street and had apparently even reached Sesame Street!"

If you've been a long-term client, you may remember reading these words from your Halpern Financial Investment Review in 2008. Now that we have reached the 10-year anniversary of the financial crisis, my daughter is 15, learning to drive, and she cares more about what's happening on Snapchat and Instagram than what the markets are doing. It's hard to believe how time passed so quickly!

At this point 10 years ago, little did we know then that the market would go on to even lower lows in March 2009. The truth is, after the crisis, the scary headlines never stopped. Remember the BP oil spill, the Greek debt crisis, the U.S. government shutdown, the "Taper Tantrum", the Ebola fears, Brexit, the worst-ever start to the year for equities (2016), or this February, when the markets had two days in a single week with losses over 1,000 points? This is just a small sampling of the various reasons we have all been told to panic over the past 10 years.

But no one seems to have told the market to stop advancing. In fact, after the initial worry leading up to each of these events, the majority of them passed with little fanfare. We're in the longest bull market since the one from October 1990 to March 2000. Since September 2008, the S&P 500 has returned 136% on a total return basis, and almost 9% on an annualized basis. These numbers are right in line with long-term historical averages. So much for the "new normal" we have all been told to accept!

Reminder: Bull Markets Are a Good Thing

Today the market stands near all-time highs, and we've been fielding media requests like "Should investors be bracing for the drop?" Investors are worried about the "aging" bull market…just as they did last year, and the year before that.

New highs are a normal and expected part of being an investor—not a reason to panic. Corrections are also a completely normal and expected part of being an investor—not a reason to panic. We are always careful to prepare for the unexpected via diversification, rebalancing and consistently monitoring securities used for optimal allocations, but we are not making any drastic changes. So far in 2018, the S&P 500 has reached 5 new all-time highs and the Dow has reached 13 new all-time highs. In 2017, the S&P 500 reached 8 new all-time highs and the Dow reached 71.

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Of course, a correction could happen any day, just as a market increase could happen any day. We had two corrections in 2016, and have already experienced one this year. Regardless of what the future holds, it pays to be proactive and plan for a wide variety of market scenarios. Volatility is a certainty in this uncertain world, but the U.S. markets seem to handle these gyrations with much greater efficiency than ever before.

Preparing for Your Investing Future

- **DON'T try to predict the future.** Just take a look at what was in the Dow Jones Industrial Average before 2008 versus now. Eight of the components have changed, over 25% of an index representing the blue-chip companies of the U.S.
- **DON'T pick winners and losers.** Over the bull market of the past ten years, we have seen wild swings in which asset class was the top performer year by year. Predicting which areas will go up and down is a gamble at best, as you can see in the "returns quilt" at right *(source: Blackrock)*.
- **DON'T expose yourself to undue risk.** Often the people most fearful of a downturn are those who have too much risk in the portfolio for their age and goals. A downturn would be devastating to these people because they lack the time needed to recover from a loss. If you need a certain amount of money for short-term living expenses (1-3 years), these funds should not be exposed to the stock market. Longer-term money can afford a little more risk. For our clients approaching retirement, the Retirement Income Security Report details a sustainable funding plan, keeping this principle in mind. It involves segregating dollars based on purpose, and allocating the balances appropriately for each purpose.

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Fixed income 5.2%	Lg cap growth 37.2%	Sm cap 26.9%	Fixed income 7.8%	Lg cap value 17.5%	Sm cap 38.8%	Lg cap core 13.7%	Lg cap growth 5.7%	Sm cap 21.3%	Lg cap growth 30.2%
Cash 2.1%	Int'l 31.8%	Lg cap growth 16.7%	Lg cap growth 2.6%	Int'l 17.3%	Lg cap growth 33.5%	Lg cap value 13.5%	Lg cap core 1.4%	Lg cap value 17.3%	Int'l 25.0%
Div portfolio -22.8%	Sm cap 27.2%	Lg cap value 15.5%	Lg cap core 2.1%	Sm cap 16.4%	Lg cap value 32.5%	Lg cap growth 13.1%	Fixed income 0.6%	Lg cap core 12.0%	Lg cap core 21.8%
Sm cap -33.8%	Lg cap core 26.5%	Lg cap core 15.1%	Div portfolio 1.8%	Lg cap core 16.0%	Lg cap core 32.4%	Div portfolio 8.1%	Div portfolio 0.1%	Div portfolio 8.7%	Div portfolio 15.1%
Lg cap value -36.9%	Div portfolio 20.8%	Div portfolio 13.0%	Lg cap value 0.4%	Lg cap growth 15.3%	Int'l 22.8%	Fixed income 6.0%	Cash 0.0%	Lg cap growth 7.1%	Sm cap 14.7%
Lg cap core -37.0%	Lg cap value 19.7%	Int'l 7.8%	Cash 0.1%	Div portfolio 12.2%	Div portfolio 20.3%	Sm cap 4.9%	Int'l -0.8%	Fixed income 2.7%	Lg cap value 13.7%
Lg cap growth -38.4%	Fixed income 5.9%	Fixed income 6.5%	Sm cap -4.2%	Fixed income 4.2%	Cash 0.1%	Cash 0.0%	Lg cap value -3.8%	Int'l 1.0%	Fixed income 3.5%
Int'l -43.4%	Cash 0.2%	Cash 0.1%	Int'l -12.1%	Cash 0.1%	Fixed income -2.0%	Int'l -4.9%	Sm cap -4.4%	Cash 0.3%	Cash 0.9%

- **DO invest for the long term.** If you sell during a downturn, it is all too easy to miss the right opportunity to get back into the market. Six of the best 10 days between 1998-2017 occurred within two weeks of the 10 worst days. The best day of 2015 was only 2 days after the worst day. What are the chances you would completely regain confidence in just two days? Jumping in and out of the market when you are fearful in the short term only locks in your losses for the long term.
- **DO control what is within your control:** You cannot control market performance, but there are a number of things you can control to stack the investment deck in your favor. Avoid investment commissions, keep portfolio expenses to low institutional levels, use tax efficient strategies, and hold the proper types of assets in the proper types of accounts.
- **DO save!** Saving on a regular basis is another way to be proactive (and automatically increase your "return"!). This includes maxing out your tax-deferred retirement contributions, as well as contributing to after-tax accounts. Both contribute to your future security. Some investors worry about buying at the "top of the market." However, we cannot know what tomorrow will bring. We always try to allocate new savings in the most advantageous way (for example, buying more undervalued areas). It is never a bad day to invest in your future wealth!

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As we enter the final quarter of 2018, the final three months will bring another rate hike, a mid-term election and plenty of corporate and economic year-end data. Each of these can move markets one way or another. During periods of louder news cycles and the potential for heightened volatility it is critical to remember, money moves without the emotion we all feel. Prudent investors can always find a path for success in the long-run.

May the final few months of 2018 bring you enjoyable time with your family, some peace and good cheer! We wish you plenty of health, wealth and happiness as you plan for a wonderful Holiday Season!