
Why Did Stocks Drop?

Weekly Update – October 29, 2018

Last week did nothing to dispel October's reputation as a tough month for the markets. The S&P 500 lost 3.94%, the Dow declined 2.97%, and the NASDAQ dropped 3.78% during what was one of 2018's most volatile weeks so far. All three indexes are down significantly for the month, and both the S&P 500 and Dow have entered negative territory for 2018.¹ International stocks in the MSCI EAFE also struggled, posting a 3.87% drop for the week, and a 13.31% decline for the year.²

Why did stocks drop? Will they continue to do so?

Currently, many topics are on investors' minds, from inflation to tariffs to valuations and beyond, but analysts are not pointing to one single culprit for last week's performance. Instead, a mixture of concerns, with a large dose of emotion, seemed to drive the markets.³

Emotional reactions are understandable when volatility emerges, but they have no place in long-term investment strategies. Instead, we need to focus on the fundamentals.

What did we learn last week?

Trying to find simple explanations for market behavior can feel impossible, in part because the markets aren't a machine—they're a reflection of many human actions. Investors make choices based on their interpretations of current conditions, and the effects of these decisions become "market performance."

Amidst the volatility, we received several updates on the economy, including:

- **3rd Quarter Gross Domestic Product (GDP) beat expectations:** The initial GDP reading for the 3rd quarter came in at a strong 3.5%, helped in large part by consumer spending.⁴
- **Corporate earnings have been strong, but imperfect:** So far, this corporate earnings season is showing 22% growth, but fewer S&P 500 companies are exceeding analysts' predictions than in the 1st quarter of 2018. In particular, some major tech companies' results disappointed investors.⁵
- **Housing continued to struggle:** New home sales were lower than expected in September, which followed disappointing results from existing-home sales data, as well.⁶
- **Inflation growth eased:** The Personal Consumption Expenditures Price Index, which shows inflation, increased by 1.6% in the 3rd quarter, much lower than projected.⁷

Examined together, this data indicates that while the economy has potential challenges, it also demonstrates solid growth, reasonable inflation, and strong corporate performance. That story feels different than the sharp drop we experienced last week. However, when you look at the bigger picture, our current circumstances provide another reminder that volatility is normal, and examining economic fundamentals is critical.

Still, risks exist, and in the coming weeks we will pay very close attention to data and performance. In particular, we will follow the Federal Reserve's comments and actions to see what may lie ahead for interest rates. In the meantime, please let us help answer your questions and address your concerns. We are here to help you pursue your goals, in every market environment.

ECONOMIC CALENDAR

Monday: Personal Income and Outlays

Tuesday: Consumer Confidence

Wednesday: ADP Employment Report

Thursday: PMI Manufacturing Index, ISM Manufacturing Index, Construction Spending, Jobless Claims

Friday: Employment Situation, Factory Orders

DATA AS OF 10/26/2018	1 WEEK	SINCE 1/1/18	1 YEAR	5 YEAR	10 YEAR
STANDARD & POOR'S 500	-3.94%	-0.56%	3.84%	8.60%	11.73%
DOW	-2.97%	-0.13%	5.50%	9.66%	11.41%
NASDAQ	-3.78%	3.82%	9.31%	12.69%	16.53%
INTERNATIONAL	-3.87%	-13.31%	-10.76%	-1.18%	4.57%
DATA AS OF 10/26/2018	1 MONTH	6 MONTHS	1 YEAR	5 YEAR	10 YEAR
TREASURY YIELDS (CMT)	2.16%	2.47%	2.63%	2.91%	3.08%

Notes: All index returns (except S&P 500) exclude reinvested dividends, and the 5-year and 10-year returns are annualized. The total returns for the S&P 500 assume reinvestment of dividends on the last day of the month. This may account for differences between the index returns published on Morningstar.com and the index returns published elsewhere. International performance is represented by the MSCI EAFE Index. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.



"Money won't create success, the freedom to make it will."

— Nelson Mandela



Arugula and Pear Salad with Toasted Walnuts



Serves 4

Ingredients:

1 tablespoon minced shallots
2 tablespoons extra virgin olive oil
2 tablespoons white wine vinegar
¼ teaspoon salt
¼ teaspoon Dijon mustard
⅛ teaspoon freshly ground black pepper
6 cups baby arugula leaves
2 Bosc pears, thinly sliced
¼ cup chopped walnuts, toasted

Directions:

1. Mix the first six ingredients in a large bowl.
2. Stir the mix with a whisk.
3. Add arugula and pears to the bowl.
4. Toss to coat salad.
5. Sprinkle each serving with 1 tablespoon walnuts.

Recipe adapted from myrecipes⁸



Tax Preparers Should Watch for Signs of Information Theft

If you're a tax preparer or professional, how do you detect theft? What are the subtle signs that indicate information has been stolen?

The IRS has joined forces with Security Summit to combat information and identify theft. State tax agencies, tax preparation firms, software developers, payroll and tax financial product processors, tax professional organizations, and financial institutions are part of Security Summit.⁹

Tax preparers may be unaware of client data theft until they discover fraudulent tax returns being filed in their clients' names. Safety experts urge preparers to protect client information by implementing strong security protections.

Here are some red flags for tax preparers of possible data theft:

- The IRS begins to reject clients' e-filed returns because a tax return with the same Social Security number has already been filed.
- The IRS sends authentication letters to clients who haven't filed returns. The letters include forms 5071C, 4883C, and 5747C.
- The IRS sends refunds to clients who haven't filed returns.
- The IRS sends tax transcripts to clients who haven't requested them.
- The IRS sends notices to clients who have created online services accounts that their accounts were accessed.
- The number of returns you filed with your Electronic Filing Identification Number is greater than the number of clients you have.
- You are getting responses to emails you either didn't send or don't recall sending.

Other details may apply, and you can find more information on the IRS website.

This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.

Tip adapted from the IRS.gov¹⁰



Hitting Your Greens, Made Easy

The second-best place to have your ball land is on the green. The first favorite, obviously, is in the hole.

But along the way, you encounter water hazards, roughs, and sand bunkers that seem to attract far too many of your balls on the way across the fairway to the green.

So, what do you have to do to land in fewer traps and on more greens?

Here are some exercises to sharpen your skills to avoid those diversions:

- **Maintain your angles:** Try to keep your spine angle consistent throughout your swing.
- **Backhand it:** If you slice the ball, use the back of your glove or the back of your weaker hand to get a greater sense of control over your clubface. Hold the club with your glove (weaker) hand so that you can see the logo on the back of the glove. This establishes a stronger grip position.
- **Attempt to point the logo on your glove toward the target as you swing the club.** This will help straighten the slice.

Tip adapted from GolfDigest¹¹



Taking a Look at Good Eye Care

If you're reading this, you've probably come to the conclusion at some point how important your eye health is.

Seeing your health-care practitioner regularly will help you detect potential eye problems early, such as nearsightedness, farsightedness, presbyopia, and astigmatism.

Here are some common eye problems:

- **Watery eyes:** Your eyes attempt to wash out specks, such as dirt or dust. Once your eyes are able to remove the irritants, your eyes should stop watering.
- **Dry eyes:** Your eyes don't make enough tears. Windy weather or other underlying health issues may cause dry eyes. Normally, your eyes try to produce more tears to correct this.

- **Pinkeye:** One or both eyes look pink and may feel itchy. Infections or viruses often cause pinkeye. You may want to use antibiotic eye drops.
- **Blocked tear ducts:** Tear ducts can get clogged, which produce watery eyes. This can be caused by infections or injuries.
- **Eye scratches:** Dirt, sand, or contact lenses can scratch your eyes, which may make your eyes hurt, get red and watery, or overly sensitive to light. Scratches usually heal within a couple days. You should seek medical help if you believe your cornea is torn.
- **Styes:** Swollen, red, painful lumps are the most obvious symptoms of a sty, which are caused by bacteria. Styes usually subside after a few days. The best treatment: Leave it alone. Don't touch it.

Regular eye exams can help prevent problems. You may need glasses, contact lenses, or other treatment to maintain good eye health.

Tips adapted from WebMD¹²



Travel the Eco-Friendly Way

What's the world's largest industry? It's tourism, and ecotourism is the single, fastest growing segment within the industry.

Here are some tips to make traveling more earth friendly:

- Go with accredited ecotourism companies. Take a look at International Ecotourism Society's directory at <http://www.ecotourism.org/membersearch>.
- When possible, fly direct or take a train.
- Use airlines' special ecofriendly programs. Some airlines offer passengers opportunities to support environmental causes.
- Take advantage of local or public transportation if it's available. If you plan to rent a car, ask for a hybrid or an electric one.
- Stay at hotels that offer ecofriendly programs.
- When you stay at hotels, tell management that service staff doesn't have to change your sheets and towels unless you make a request. Leave comment cards commending hotel staff if they complied with your requests.

Tip adapted from Conservation International¹³

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The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

The Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of stocks of technology companies and growth companies.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indices from Europe, Australia, and Southeast Asia.

The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

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Past performance does not guarantee future results.

You cannot invest directly in an index.

Consult your financial professional before making any investment decision.

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¹ <http://performance.morningstar.com/Performance/index-c/performance-return.action?t=SPX®ion=usa&culture=en-US>

<http://performance.morningstar.com/Performance/index-c/performance-return.action?t=!DJ®ion=usa&culture=en-US>

<http://performance.morningstar.com/Performance/index-c/performance-return.action?t=@CCO>

<https://www.bloomberg.com/news/articles/2018-10-25/asia-stocks-set-to-rally-on-u-s-gains-bonds-slip-markets-wrap?srnd=markets-vp>

<https://www.cnbc.com/2018/10/26/stock-market-us-futures-show-drop-for-dow.html>

² <https://www.msci.com/end-of-day-data-search>

³ <https://www.bloomberg.com/news/articles/2018-10-25/sell-offs-are-normal-but-this-week-is-shocking-the-pros>

⁴ <http://wsj-us.econoday.com/byshoweventfull.asp?fid=485684&cust=wsj-us&year=2018&lid=0&prev=/byweek.asp#top>

⁵ <https://www.reuters.com/article/us-usa-stocks-weekahead/mixed-u-s-inflation-signals-leave-investors-adrift-idUSKCN1N01F6>

⁶ <http://wsj-us.econoday.com/byshoweventfull.asp?fid=485959&cust=wsj-us&year=2018&lid=0&prev=/byweek.asp#top>

⁷ <https://www.cnbc.com/2018/10/26/first-read-on-us-q3-2018-gross-domestic-product.html>

⁸ <https://www.myrecipes.com/recipe/arugula-pear-salad-with-toasted-walnuts>

⁹ <https://www.irs.gov/privacy-disclosure/security-summit>

¹⁰ <https://www.irs.gov/newsroom/tax-preparers-should-look-out-for-these-signs-that-a-criminal-stole-information>

¹¹ <https://www.golfdigest.com/story/stop-missing-greens>

¹² <https://www.webmd.com/eye-health/default.htm>

¹³ <https://www.conservation.org/pages/tips-to-live-green.aspx>