HalpernFinancial

Third Quarter 2015 Market Review

Performance Summary

Looking back on the third quarter, one time period in particular jumps out: August 17-24, when the Dow dropped over 1600 points, or almost 10%.

1. Dow Jones Industrial Average. July 1, 2015-Oct 1, 2015

2. Dow Jones Industrial Average over the past 30 years

But when you step back and look at that same week with a wider perspective, the drop at the end of August looks very different. It's still significant, but when you look at the big picture, it's a pothole, not the Grand Canyon.

We're investing in an engineered period with the Fed artificially inflating equity markets by forcing a zero rate policy. And it seems like over the past 15 years, both gains and losses are more extreme. Because of this, many investors feel "once-bitten, twice-shy" when it comes to *any* losses at all. But actually, over the past four years we've seen very low negative volatility and larger market gyrations have been scarce. While August's drop in the Dow was jarring, it was not unexpected—and the index did recover 3% of losses by quarter-end.

Indices	1st Quarter	2nd Quarter	3rd Quarter	2015 YTD
S&P 500	1.0%	0.3%	-6.4%	-5.3%
DJIA	0.3%	-0.3%	-7.0%	-7.0%
MSCI Developed EAFE (international)	5.0%	0.8%	-10.2%	-4.9%
BarCap Aggregate Bond Index	1.6%	-1.7%	1.2%	1.1%

Analysis

Now that the broad market indices have posted their largest quarterly losses in four years, are markets in a more normal state? That remains to be seen. Charts can only give us a backward-looking view, and investors have to look both forward and backward to understand the current market scenario.

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First, let's look back a little more and explore why this pullback occurred.

- **It had to.** Stocks go up over time, but they don't go straight up. Eventually there is a regression to the mean, bringing markets back to more reasonable valuations.
- **Crash in commodity prices.** Your portfolio has no direct exposure to commodities, but basic materials and energy prices can have a huge effect on emerging markets. A surplus of supply and not enough demand for commodities created downside pressure, and emerging markets ended the quarter down -18.5%, and -17.2% YTD.
- **China sneezed, and the rest of the world *thought* it caught a cold.** Remember what we said last quarter about China's stock market gains far outpacing the actual growth of the Chinese economy? In Q3, China released weak economic numbers and the Shanghai Composite index lost -25% of its value in Q3. Although the U.S. markets are fairly insulated from China, a drop of that magnitude created reverberations throughout the world.

Looking Ahead

Our philosophy is to control what is within our control (costs, risks, maintaining a disciplined process) and to protect against elements outside of our control through properly diversification. While we can't predict the exact timing of future events, we can be prepared ahead of time for them. You can find more detail on the specific portfolio strategies we are using in the **Investment Commentary**. Below are the major themes we see for Q4:

- **More volatility expected.** As previously mentioned, volatility was at a record low, and now it will likely return to a heightened level—meaning more ups and downs in your portfolio. There are several triggers we see that are likely to spark this volatility, including the anticipated Fed rate hike prior to year-end and December's Congressional budget battle with threats of another government shutdown. And with the start of 2016, we'll be in a presidential election period, which can also create heightened volatility. While we are not market timers, this can provide strategic opportunities for your portfolio. Even losses provide opportunity for tax-loss harvesting and rebalancing to properly valued sectors.

- **The Federal Reserve will increase the federal funds rate.** The Fed was expected to make its first rate hike in September, but ended up delaying because of "recent global economic and financial developments." Now the first rate hike is expected in December. What really matters is not the *date* of the first increase in rates, but the *rate* of subsequent moves. We're not too concerned about this because all of the Fed moves will be data dependent. The Fed's mandate is to promote maximum employment, stable prices, and moderate long-term interest rates—not to scare investors.

- **A great environment for saving.** Saving when interest rates and inflation are low permits you the opportunity to participate in better markets to come. Now is the time to save! With volatility on the rise, you can benefit from having money to invest when an opportune time arises.

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If you don't know where you are going, you might wind up someplace else.
—Yogi Berra

In honor of the passing of the great Yogi Berra, perhaps we can gain some insight from him on how to deal with this coming climate and the importance of having a firm investment plan.

As always, please continue to update us on any changes in your financial situation. We are pleased to assist you, your friends and your family with your financial lives, and we are expanding our resources to do so. Don’t miss our weekly blog posts on personal finance and investment topics on the “Views” page of our website. You can also sign up to receive the blog in your email inbox.

All of us at Halpern Financial wish you a happy and healthy holiday season with family and friends.

Important Disclosure Information
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