Blue Bell
PRIVATE WEALTH MANAGEMENT

SPRING NEWSLETTER 2018

"To thine own self be true"

Is investing this simple? Making money in the stock market is exciting and losing money in the stock market is, at best, disappointing. I for one, wish it were that simple.

What drives the stock market? Is it earnings, headlines, politics and/or emotions? There is only one certainty. If more people are willing to sell than buy, the stock market will decline. Conversely, when more people are willing to buy than sell, the stock market increases in value. While we are all unique, I am comfortable saying that we share similar emotions regarding investing.

A recently published white paper from Barclays reveals the typical cycle of emotions investors feel in response to volatile investing environments. An illustration of the cycle of investor emotions can be seen below.

After years of assisting clients, I have learned that keeping emotions in check to avoid overly-emotional responses is imperative to achieving attractive long-term results. The volatility realized thus far in 2018 makes 2017 appear like a small pond relative to the Atlantic during a nor'easter. As of April 4, 2018, there have been 25 days of at least a 1.00% positive or negative daily move in the S&P 500 Index. This compares to 11 total daily moves of at least 1% in the S&P 500 Index for all of 2017.

Source: Barclays.

Interestingly, I hear more comments about the current fear in the stock market from people other than my clients. Hopefully, this is due to our clients' understanding of the partial downside protection that we have built into many of our portfolios.

What does the future hold for investors? Considering all the political commentary relating to a potential trade war with China, there is one thing of which I am certain: no President, Democrat or Republican, wants to kill the economy or stock market. Think of it, there is nothing to gain and everything to lose by doing so. This may not be true of Congress - the number one job of our Representatives seems to be getting elected at all costs. Possibly, this explains why only 15% of Americans have a favorable rating of Congress. (Gallup Survey, Feb 2018)

What about the media? Remember, the media reports on current events and needs to garner as much attention as possible to attract eyeballs. These articles are often over the top and super short-term focused which is the antithesis of successful investing traits which are to maintain a level head and a long-term focus. I'd like to highlight some negative content contained in a short one-page story, which was published by one of the major media providers:

"Big losses…S&P 500 tumbled…Investors continue to worry….Dow Jones Industrial Average lost 250 points or 3.4%…S&P 500 Index lost 26 points, or 3.5% ending at the lowest point since….the Nasdaq composite lost 53 points, or 3.7%….Tech fueled index has held up better than rest of the market so far this year closing at the lowest points…It's fear-based selling…We don't know where the bottom of this market is…Citicorp briefly assuaged fears that the troubled bank…but the early advance quickly petered out, as worries of the last few weeks returned….There is just nobody who wants to buy right now….the skepticism is back….Stocks are now extra-vulnerable…"

I could go on, but won't. What is important is that these comments were in the first nine sentences of a short article on the stock market in the United States. How could anyone reading this article feel confident about investing? Many did not as this article was written on Feb 23rd, 2009, only a few short weeks before the stock market lows. To reiterate, markets fall when there are more sell orders than buy orders. Obviously there were lots of sellers at the time. Many investors allowed their emotions and the fear of losing to become so great that they liquidated their portfolios and gave up entirely. Unfortunately, for those who got out, they missed a stock market rebound of over 300% from the 2009 lows.

I illustrate this point because on a daily basis you can read or hear someone suggesting the stock market is currently overvalued. It is my opinion, and in-line with traditional thinking, that the stock prices follow earnings over the long-term. Currently, earnings expectations appear to be very favorable and are expected to once again meet or beat investors' consensus numbers over the next 3 quarters.

“To thine own self be true” continued…

I believe all of our clients understand our investment plan that we have in place and have followed since our inception. We invest in closed-end funds when we see value and we are not afraid to take profits when discounts narrow to unacceptable levels. We use ETFs with options strategies to help reduce risk while providing favorable returns in most market environments. The exception is when the markets move up rapidly in a calendar year.

Finally, we firmly believe in index-linked notes which provide partial downside protection (i.e. 10%) and accelerated returns but only to a cap.

Our approach has worked for years and I hope the lack of ‘panicked’ clients with all of the negative news bombarding us on a daily basis seems to indicate understanding on our clients part. As always, we invite you to call or visit with any concerns you may have.

It is a pleasure having you allow us to assist you with your investment needs.

Annual Returns and Intra-Year Declines (2/14/18)

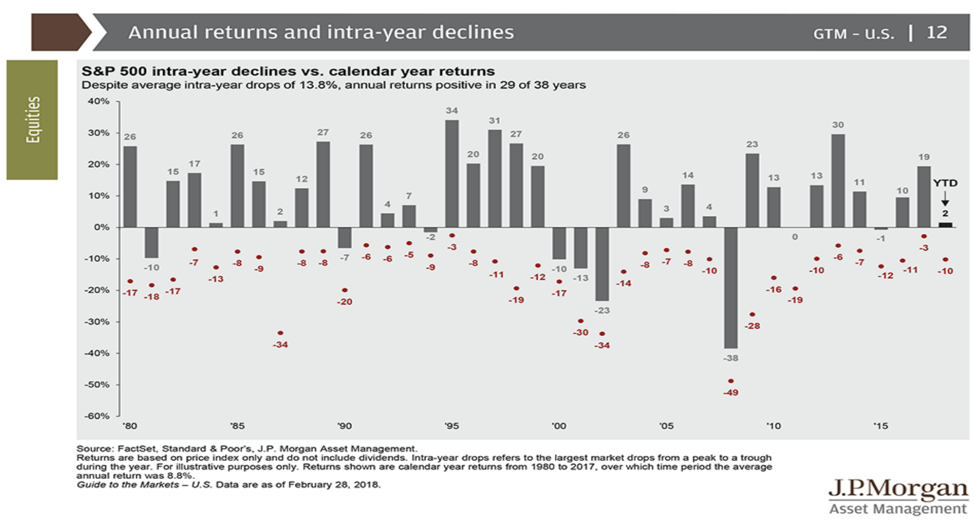
The recent drawdown in the equity markets may be more “normal” than the 2017 performance of equity markets, which did nothing but go up. This sell-off has been scary for investors and has many people pausing to ask questions about their portfolios and the stock market in general.

Should Investors Be Concerned?

Although sell-offs or market corrections, defined as a 10% drop in the market, can be scary, they are generally “normal” in that they occur typically once each calendar year according to Deutsche Bank. Take a look at the chart from JP Morgan showing the intra-year declines in the stock market, as measured by the S&P 500, each year since 1980. The red number is the percent that the market fell at its lowest point during the year, and the grey bar shows the finishing percentage gain/loss fore the year.

What Does an Intra-Year Drawdown Signify?

Since 1980, the stock market has faced an average intra-year drawdown of 13.8% and a median drawdown of 10.5%. Obviously, as seen in the chart, some years are more drastic than others with 1987, 2002, and 2008 being the outliers. The more important points to note are the years where the S&P 500 did not suffer a drawdown of at least 5-6%. The only two years to not have a drawdown of greater than 5% were 1995 and 2017. This can help to explain just how “abnormal” the market was during 2017. Intra-year drawdowns are normal in the stock market and aren’t always a foreshadowing of what is to come during the year. Looking at the chart, you can see that 29 of the past 38 years have yielded positive returns even with an intra-year decline.



In addition, the S&P 500 was positive for 15 consecutive months from November 1, 2016 through January 31, 2018 gaining 30.43% during that time period. This also was an “abnormal” trend. Looking back to 1980, the S&P 500 had never been positive more than 9 months consecutively and even this streak only happened once from July 1982 through March 1983. In order to find a period in the S&P 500 similar to this, we have to go all the way back to 1958-59!

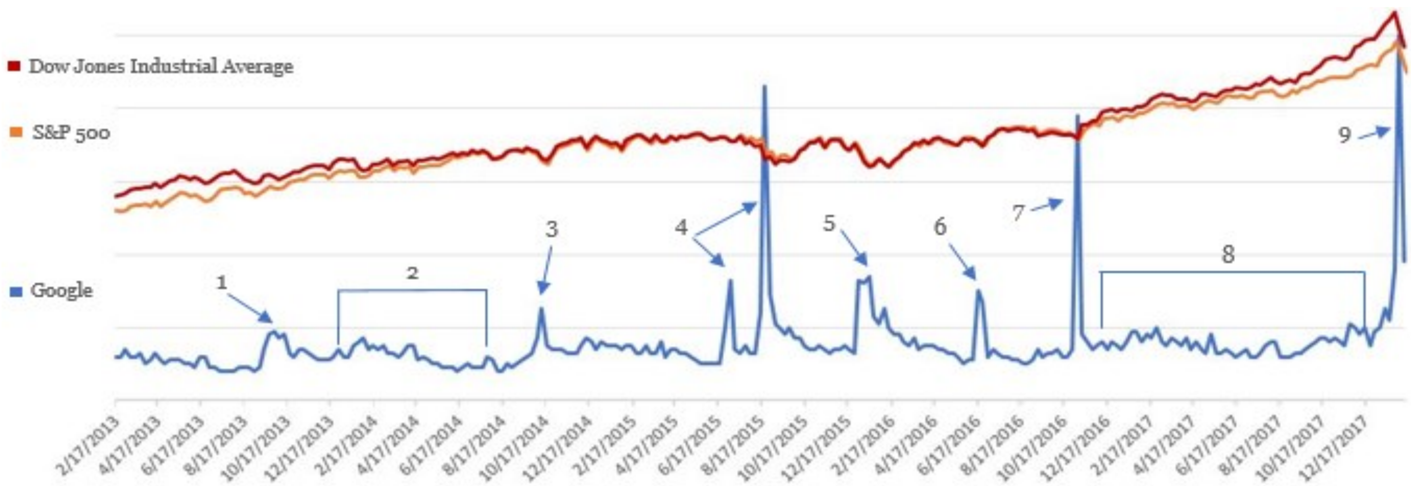
The S&P 500 hit an all-time high on January 26, 2018 at 2,872.87 and fell 11.84%, a correction by definition, to an intra-day low of 2,532.69 on February 9, 2018. We are aware that the decrease in the stock market last week can be frightening for investors, especially when the market falls as quickly as it did. These market corrections help stress the importance of having some downside protection in portfolios through equity-linked notes and covered-call writing. Increased volatility, while not fun, may also lead to opportunities in the closed-end fund space which will prove beneficial over the long term.

Google Trends and Market Sell-Offs (2/22/18)

Tuning out the noise of the media and those around you can be hard especially when it comes to your savings. Many people are subject to react to media headlines or recommendations and opinions from friends with their investments. Nowadays, people are inundated with even more news on their mobile devices, computers, TVs, etc. Where do most people find out general information about equity markets or find news on them? Generally, the internet, and, more specifically, Google.

Do Negative Headlines Generate More Attention?

Below is a chart depicting Google searches containing the keyword "stock market" over the last five years in blue overlaid with the S&P 500 in orange and the Dow Jones Industrial Average in red. A higher amount indicates more searches, while the corresponding number can be found below explaining what was happening in the news or markets during that time. You will notice the higher spikes in the amount of searches accompanied negative news and dips in the market, while the longer, flat periods came during positive growth in the market.



Notable Rises in "Stock Market" Search Queries on Google

1. **10/12/2013:** Discouraging remarks from the Fed tapering the Bond purchase program caused the Dow Jones to drop 1.2% and the S&P 500 to drop .70%.
2. **12/17/2013 – 08/17/2014:** S&P 500 gains 12.8%
3. **10/15/2014:** NASDAQ falls nearly 10% along with Dow dropping 460 points as the fear gauge reach its highest levels since 2011. Many investors fled equites into US Government Bonds driving the 10 year treasury yield below 2%.
4. **08/10/2015-08/24/2015:** "Market Mayhem" Dow drops 1000 points along with a 120 point drop in the S&P 500. Sell offs came after the China Shanghai Composite crashed 8.5% along with the German DAX and FTSE reaching bear market lows. CBOE volatility index spikes to over 45%.
5. **January 2016:** Dow and S&P 500 pullback 5% as oil prices reach all-time lows and concerns about China loom.
6. **June 2016:** Multiple day sell off occurs as Brexit vote passes. S&P 500 loses 3.5% in one day along with Dow shedding 611 points.
7. **November 2016:** Concerns over the election caused increased volatility in the stock market.
8. **November 2016 – December 2017:** S&P 500 gains 23.3%.
9. **February 2017:** Fear of inflation after a better than expected jobs report and the possibility that the Fed will raise interest rates caused the Dow to fall 7.03% and the S&P to fall 6.13% in two trading days.

The spike begins at the start of February. On Friday, February 2nd, the S&P 500 was down 2.12% and the Dow Jones Industrial Average was down 2.54% in one day; the most volatile the market had been in a long time. As you can see, many people turned to the internet to find out exactly what was going on. The following Monday, the stock market was negative again leading to an even larger spike in searches about the stock market. Equity markets made national and even local news headlines causing many investors to panic.

Avoiding "Panic Sell"

What this tells us is that people are exposed to headline news when there is doom and gloom and less interested when there is growth in the markets. In fact, many stock market news outlets have admitted their ratings are higher when the market is going down. Getting caught up in the bad news may cause investor to stray from their current financial plan or "panic sell" investments to feel safe. We have written before about not allowing sensational media headlines to affect your investing decisions on our blog. The bottom line is that the fear of losing money is much stronger than the euphoria that comes as markets move higher.

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8th Annual For Pete's Sake, Walk! at Citizens Bank Park

For Pete's Sake, Walk! is a 3-mile fun walk at Citizens Bank Park, the home of the Philadelphia Phillies! Walkers round the stadium concourse as they celebrate the beauty of relationships in their lives and the strength of those who battle cancer. Walkers who reach their appropriate fundraising goals will get the opportunity to visit the locker room and batting cages!

Date: Sunday, April 15th, 2018
Time: 9 AM Check-In, 10 AM Walk Start

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Reminders

- If you mail a check, please make the check payable to "Charles Schwab & Co, Inc." with your account number written on the check.
- Talk to your children about the benefits of starting a Roth IRA.
- SAVE NOW! Please consider setting up online access to view your accounts online and to receive your statements and trade confirmations electronically.
- Mention to your friends and family about signing up for our weekly blog posts and personal weekly reads about retirement, investing and more on our website!