Our Perspective on Recent Market Volatility

Dear Valued Clients & Friends:

In this stock market turmoil, we want to assure you that *Your Anxiety Removal Team®* is here for you. We are monitoring events and the markets and pledge to keep you informed. We have been through these volatile storms in the past and will survive again. As your financial advisor, we care deeply about your financial well-being, and it is in times like these that it is important to stay calm and refrain from making decisions that may be detrimental to your wealth.

What is going on?

Global financial markets endured their worst week of the year this past week amid concerns over slowing economic growth and currency woes in China and other emerging markets, among other reasons. We are witnessing the increased volatility in the financial markets and it is natural to wonder how this may impact your wealth. In that regard, we wanted to highlight a few important aspects of investing in volatile markets:

First, while the selloff is scary, we (as investors) have been here before. Over the long-term, the recent drop in prices is noise and should have no major impact on your life plans. We continue to believe in our strategy of broad global diversification and staying with the portfolio that was built for your particular long-term plan.

You (and your portfolio) are not the Dow Jones Industrial Average. Or, to say it another way - Diversification works! For example, investment portfolios typically include bonds and cash investments outside of the Dow Jones and any other stock market that help to mitigate stock market volatility. While this may not be the case on a day-to-day basis, a mix of different types of assets (stocks, bonds and cash) provides a smoother and more stable ride for your portfolio. So, while stocks have performed poorly in the past few weeks, most of our bond funds have provided positive returns. The time frame is extremely short, and no one knows how the funds will perform in the next few weeks or months, but it is another testament to the benefits of diversification.

Second, nothing about the events of the recent days suggests that the fundamentals of investing have changed. So, neither should our confidence in the owning of stock investments. Stocks are owned for their long-term growth potential and so are inherently less predictable over short periods. As investors, we expect higher long-term returns on stocks than on cash and bonds because they do have greater volatility.

It's always a good idea to be cautious about historical statistics, but here's some food for thought from Charles Schwab & Co (featuring data from Bespoke Investment Group):

"The S&P was down 5.7% last week. In only four other times in this bull market has the index been down this much (or more) for a week, and 28 other times going back to 1980. Looking at all 5%+ weekly drops for the S&P 500 since 1980, the median return the next week was 1.1% (61% positive), the next 4 weeks was 1.8% (61% positive), and the next 12 weeks was 5.5% (71% positive). This compares to an average return for all periods of 0.2%, 0.7% and 2.2%, respectively. In other words, after weekly pullbacks like this, the out-weeks tend to be much better than normal in terms of performance."

What's more important than reacting to short-term movements and trends, however, is to make sure your investment plan is in place and that it reflects your personal financial goals.

In Conclusion

As your trusted advisors, McCarthy Grittinger Financial Group will remain vigilant and continue to monitor market developments and our dedicated investment operations team will watch for rebalancing opportunities that may add value to your portfolio. As always, please do not hesitate to contact us if you have any questions or concerns.

Your Anxiety Removal Team®

Scott D. Grittinger, CFP®
Matthew T. Miler, CPA, CFP®
Jacqueline A. Schneider, CFP®
Amy L. Finley
Alicia A. Nordwig, AAMS®
Robert P. Kult, CPA
Maggie Mayer
John T. McCarthy Ambassador