Stay Calm and Carry On

Dear Valued Clients & Friends:

Benjamin Graham, called the father of fundamental investing, said *"in the short run the market is a voting machine; in the long run, it is a weighing machine."* A dilemma investors seem to face today is that the 'short run' seems to be more like the 'long run'. We are particularly aware of the emotions of this market and that investors can change their 'vote' about the future very often. But we hold firmly to Mr. Graham's belief that the 'long run' makes more sense and that the fundamentals will eventually be 'weighed' by the market.

Stay calm and carry on

Easy to say but hard to do. Therefore, we try to look past the emotion and at the fundamentals and agree with Liz Ann Sonders, Chief Investment Strategist for Charles Schwab & Co, who writes this opinion about the current situation, *"We still think the bull market is intact as global monetary policy is loose, economies aren't falling off a cliff, and the US consumer is in good shape, supported further by falling commodity prices."*

The bottom line is that the US economy remains healthy, although we believe there are still potential speed bumps for stocks along the road. The volatility associated with interest rate uncertainty is likely to persist going into the fourth quarter and the continuing economic growth concerns in China could unnerve investors at least temporarily. As such, the volatility we expect is global in nature. Investors need to be prepared for more ups and downs and should endeavor not to be distracted from their established investing plan.

It's during times like these that we believe a little perspective is in order.

Market corrections are not unusual (although the current volatility is).

On average equity markets experience a correction, commonly defined as a drop of 10 percent or more, every 18 months. It's been nearly four years since the market entered correction territory in October 2011 so, in some ways, the S&P 500 Index's 6.3% plunge last month felt like an eventuality. With a total peak to trough drop of 12.4% from 5/21-8/25, the decline broke the third-longest run on record without a 10% correction. As a result, this long-awaited correction has finally occurred resulting in a wild ride for stocks. This case in point was recently illustrated by Jim Stack of InvesTech Research:*"So far in 2015, volatility is running at a much higher level with almost twice the number of 1% and five times the number of 2% daily gyrations as last year. Furthermore, ALL of the 2% daily moves this year have occurred within the past month or so! No wonder stock investors are nervous".*

Fed uncertainty continues regarding if and when to raise rates.

The increase in market volatility, combined with the absence of inflationary pressures, has left the Federal Reserve uncertain as to the timing of its next step. Although the Fed held off this month on a rate hike, we believe a 2015 rise is still likely and that's okay by us. What is essential to remember about this is that it is the pace and size of those rate hikes, rather than their start date, that are of greater significance to both the economy and the stock market. On this front, there seems to be good news, as Liz Ann Sonders recently noted; *"Fed Chairwoman Janet Yellen, and other FOMC members, have been taking great pains-amid the uncertainty-that the pace of rate hikes will likely be slow. This should both reduce the risk of a financial accident, and serve the equity market better".*

The U.S. economy remains resilient.

With no sign of recession in the United States, a prolonged bear market seems unlikely. Economic indicators such as employment, housing statistics and consumer confidence continue to show healthy gains despite global headwinds.

So, what do wise investors do in these times? Be patient.

This is the challenging part of investing. As Tim Buckley, Vanguard's Chief Investment Officer, stated so well recently, *"It's tough to sit tight and stay calm when we live in a world of 24-hour news cycles amplified through social media and smartphone alerts. "Tuning out the noise" is difficult when the noise is seemingly everywhere. No one can predict what's next for global markets. That's why today's chatter about what the market is doing or might do is meaningless, and potentially dangerous, for the long-term investor".* We agree.

In Conclusion

As we move into autumn of this year, we reiterate Benjamin Graham and stand by the belief that the 'long run' continues to make more sense than the 'short run' and that the fundamentals will eventually be weighed correctly by the market.

As your Anxiety Removal Team® we stand ready to discuss and review any changes in your personal situation. We are here to help you navigate the current environment and to help alleviate market anxiety, as needed. As always, please do not hesitate to contact us if you have any questions or concerns.

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