Qualified Plan Advisors
Client Newsletter
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Your Comprehensive **Fiduciary Partner**

A GUIDE FOR INVESTORS IN **VOLATILE MARKETS**

Stock Market Corrections & Volatility

STOCK MARKET CORRECTIONS

In 2017, the largest peak-to-trough decline we saw in the S&P 500 was just over 3% - an almost unprecedented lack of volatility. These conditions were bound to ultimately shift, and with the amount of automated trades that were triggered during the reversal, we saw quite a spectacle in the Dow on Monday, which at one point was down over 1,500 points. This irrational behavior is typically short-lived, and generally should not drive long-term investment decisions.

It is important to understand that market corrections are a normal phenomenon, and those investors who know the facts, who remove emotion, and who react (or don't react) appropriately are normally the biggest benefactors.

In times of volatility, it can be very difficult to stay the course and remain disciplined as an investor. Emotions become volatile and history has shown two common things for individual investors.

Did you know that since 1997, this is the 9th market correction (S&P 500)[1]?

A market correction is generally defined as a market decrease of 10% or more that does not exceed 20%.

Average Correction:
13.35%

Average # of Days Until Fully Recovered:
71 Days

Investors who panic and make rash decisions, often make mistakes that they may never be able to overcome.
For example on March 9th, 2009, the S&P 500 hit a low, down 57% from its all-time high. From that point forward, the market moved up over 200%1. Unfortunately, many investors never re-entered the market. This led to them missing out on potentially doubling or tripling their money depending on their exposure to equities.

Investors who stay the course, and invest for the long term, generally outperform those who do not.
Keep in mind this famous quote from Warren Buffett; "When investors get greedy, I get afraid. When investors get afraid I get greedy.

As we've watched the market over the last several trading sessions, we have continuously asked ourselves "has anything fundamentally changed between yesterday and today? Or even last week and this week?" Every time, our answer is a resounding – no. We view this pullback as healthy, and frankly overdue. We still feel the equities markets are the best place to earn a decent return in 2018, and are still bullish on stocks. The back drop is still very positive for the equity markets: earnings continue to grow at a robust pace, with approximately 80% beating estimates, inflation is low to non-existent, interest rates (credit) are still very cheap (by historical standards), tax reform should boost corporate profits and consumer spending, and the global expansion is still very much alive. None of that changed between last week and today.

The catalyst for this sell off really surrounded around inflationary concerns. Inflation has been essentially dormant for the last several years, as despite a low unemployment rate, wage growth has struggled to get off the ground. That finally showed signs of change in Friday's jobs report, as wage growth was up 2.9% year-over-year, the highest gain since June of 2009. Growing wages coupled with the added stimulus of tax reform have caused some traders begin to price in the possibility of the economy over-heating, prompting rapid action from the Federal Reserve. While we do expect the Fed to continue raising rates this year, we are still at historically low levels with cheap credit readily available to businesses wishing to invest in growth. Any inflation experienced from a rise in wages would have a lagged effect before the economy and inflation are impacted. We also believe tax reform will lead to inflationary pressures; as will the normalization of the Fed. But we feel these inflationary pressures will start impacting the economy in the second half of the year, perhaps even the fourth quarter.

As anxious as it may feel from day to day, we would urge investors to remain disciplined during these periods of turbulence and stick to a long-term approach driven by fundamentals rather than short-term bursts of activity. We will continue to monitor economic conditions and make adjustments as necessary, but remain confident in our strategic allocations. We recognize that media hysteria can put investors of all experience levels on edge, and our advisors stand ready to visit with you regarding any questions or concerns that may arise. Thank you for your continued trust!

Past performance does not guarantee future results.

1 Standard and Poor's Corporation as cited in "Market Briefing: S&P 500 Bull & Bear Markets & Corrections." Yardeni Research, Inc., 21 Aug. 2015. Web.

PARTICIPANTS SHOULD REMEMBER THE POWER OF DOLLAR-COST-AVERAGING

For participants who are in retirement plans, it is important to keep volatility in perspective. In fact, many times volatility can be a participant's "friend."

Said differently, when the market continuously moves up, it simply means that participants will buy in "at the high." However, when the markets become volatile, average costs may be reduced significantly, which enhances long-term returns.

To illustrate this, let's continue using the example from the previous page, which showed the S&P 500 down over 50% from 2007-2009. During that time, participants who used dollar cost averaging likely reduced their average cost, which in turn helped improve their returns. The dollar cost averaging concept is demonstrated below:

For example, say a participant invested $1,000 in a year where the market was at a high. The next year, the market went down 50% and stayed there for another year. Throughout this time the participant continued to invest and in year 4 the share price recovered to the high established in year 1.

		Total Shares	Share Price	Total Cost	Current Value
Year 1	0% Return | Invest $1,000 | Buy 10 Shares at $100/share	10	$100	$1,000	$1,000
Year 2	-50% Return | Invest $1,000 | Buy 20 Shares at $50/share	30	$50	$2,000	$1,500
Year 3	0% Return | Invest $1,000 | Buy 20 Shares at $50/share	50	$50	$3,000	$2,500
Year 4	100% Return | Invest $1,000 | Buy 10 Shares at $100/share	60	$100	$4,000	$6,000

In this illustration, the share price went down 50%, stayed there, and never went above the original starting price, yet the $4,000 investment grew to $6,000, which represents a net 50% return on the overall investment (contributions).

For illustrative purposes only; not indicative of any specific investment product. Dollar-cost averaging does not assure a profit or protect against loss.

"When markets become volatile, average costs may be reduced significantly, which enhances long-term returns."

WHAT THINGS SHOULD PARTICIPANTS CONSIDER?

For those with 3 YEARS OR MORE before retirement:

(1) Can I afford to increase my deferral percentage to take advantage of lower prices?

(2) Should I consider moving to a slightly more aggressive allocation to take advantage of a correction?

For those with 3 YEARS OR LESS before retirement:

(3) Can I afford to increase my deferral percentage to take advantage of lower prices?

(4) Should I consider taking a risk profile questionnaire to ensure my allocation is appropriate? *(Remember that even if you are going to retire in under 3 years, you will most likely live many years in retirement, meaning you will likely still need to invest for the long-term).*

If you would like to start the conversation concerning any of these questions above, we ask that you take a moment and request a risk profile questionnaire. Simply contact QPA at (855) 401-5378. Please provide your company name, your name and a good number to call you.

Please note that the information provided in this newsletter is education and not investment advice or selection.
Past performance does not guarantee future results.

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