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Stock sell-off continues but cool-headed advisers keep clients focused on the long term

Despite dramatic declines during the four-day rout, slump is happening in the wake of a seven-year bull market run

By Jeff Benjamin | *August 21, 2015 - 1:24 pm EST*

As investors continued to flee the stock market indiscriminately Friday on anything that looked like troubling news, cool-headed advisers kept their clients focused on the long term by pointing out that the week-long pullback, as sharp as it has been, came in the wake of a seven-year bull market run.

“Selling begets selling, and we're not used to seeing stocks go down like this, but we have to remember that pullbacks are normal,” said Quincy Krosby, chief market strategist at Prudential Financial.

In a big-picture context, the S&P 500 Index was down less than 2% for the year when the market opened Friday. But the jarring part is that the benchmark started the week in positive territory for the year. In fact, at its mid-July peak, the index was up nearly 6% this year.

But by Friday afternoon, sellers clearly had the upper hand. After losing 2.1% on Thursday, the S&P 500 was off another 2.05%, trading down 41.71 points at 1,994.29. The blue chip Dow Jones Industrial Average also fell 2% and was down 342.04 points to 16,648.38 in afternoon trading.

The peak-to-trough drop of more than seven percentage points in the S&P 500 is scary only when considered in context of how quickly it's declined, according to Phil Blancato, chief executive of Ladenberg Thalmann Asset Management.

NORMAL PATTERN

“Keep in mind, this is late summer-early fall, and this kind of volatility has been the norm for many, many years,” he said. “Also, we've just gone through a train wreck of an earnings season.” Taking a deeper dive, Mr. Blancato pointed out that while the earnings reports from the energy, industrial and materials sectors generally disappointed, consumer-related sectors held up and continue to look strong.

“Positive earnings surprises during the second quarter were up almost 4%, which means inside the earnings there is a better story, and that's directly related to the strength of the consumer,” he said. “Even energy prices going down, while not good for energy stocks, is good for the consumer.”

The week's stock market selloff gained new momentum on Friday when a report out of China showed weakened manufacturing data, further exacerbating concerns about the strength of China's economy. “The headline risk is real,” said Paul Springmeyer, senior portfolio manager at The Private Client Reserve at U.S. Bank Wealth Management. “Right now people are focusing more attention on China because earnings season is over.”

In addition to weaker earnings, falling commodity prices and China's slowdown, investors have been wrestling with the notion of the Fed's first interest rate hike in nearly a decade.

EMPLOYMENT IMPROVING

Even though the idea of a September rate hike is looking less likely by the day, Mr. Springmeyer said it is hard to ignore the strong employment data, which are part of the Fed's mandate. “The only thing that stands up for the rate increase right now is employment is improving,” he said.

In his pitch for long-term thinking, Mr. Springmeyer pointed out that the stock market, which historically corrects roughly every 18 months, hasn't seen a pullback of more than 10% since 2011.

“Nobody likes to see four-day dips, but you have to remember we're coming off a seven-year bull market,” he said. “I still think we'll see a rebound before the end of the year to bring the S&P up to a low single-digit gain.”

That sentiment, minus the specific forecast, is essentially where a lot of financial advisers are right now. “I haven't received any nervous calls or emails from clients yet, and I'm certainly not worried,” said **Gilbert Armour, an adviser with SagePoint Financial.** “No one knows if this is a short-term correction that will reverse in a few days or the start of a longer-term slide,” he added. “Based on the fact that we haven't had a big pullback in over six years, we are certainly due for a drop.”

Rose Swanger, principal at Advise Finance, said the market's recent volatility will test the resolve of some clients and also the communication skills of advisers. “If clients are shaking already, it's time for a reevaluation of risk tolerance,” she said. “On the other hand, we, as advisers, must remind clients that these market events may be just a blip in the long horizon.”

Theodore Feight, owner of Creative Financial Design, relies heavily on technical indicators to help him navigate market turmoil, and he isn't fretting right now.

LONG-TERM INDICATORS 'LOOKING VERY GOOD'

“All of my long-term indicators are looking very good, so this may be a buying opportunity,” he said. A key near-term stock market driver, Mr. Feight added, will be the Federal Reserve.

“I see all the problems right now being caused by the Federal Reserve's inability to raise rates like they should,” he said. “If the Fed does not get off the dime and raise rates, they will be the cause of the recession.”

Investors might get a clearer picture of the Fed's plans next week when global central bankers meet for the annual Jackson Hole conference. Ms. Krosby said the Fed would be able to calm the markets with a single speech that hits the right tone.

“Very often, Jackson Hole is a venue that imparts important messages to the markets,” she said. “This market will turn up on a dime if we hear anything that suggests the Fed won't raise rates.”