



## INTRODUCTION

The sudden stock market drop of February 2018 took many investors by surprise. The U.S. Dow fell 7%.<sup>1</sup> Other world markets also tumbled: Japan's Nikkei by 4.7%; Hong Kong stocks, 5.1%; and London's FTSE 100, nearly 2%.<sup>2</sup> One day after the notorious plunge, the market surged 381 points, but by close of the same day, the increase had disappeared.<sup>3</sup>

The wild ride had some investors and leading economists contemplating the deeper significance of the market fluctuation. Was this a prelude to darker financial times? Was all the good news about the economy merely just a lot of monetary smoke and mirrors?

The short answer to all those questions: This appears to be a mere—although meaningful—blip on the historical radar.

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## LET'S FIRST LOOK AT THE ECONOMY TO UNDERSTAND THE MARKET FLUCTUATIONS

The passage of President Trump's Tax Cuts and Jobs Act in late 2017 helped bolster optimism and was widely credited with the market surges as corporate executives expressed renewed interest in investing in their companies and workforces.

Most indicators painted a picture of a very vibrant economy and relatively robust growth. Gross domestic product, which measures U.S. production output, was expected to continue to grow at a 2–3% rate.<sup>4</sup>

On the labor side, the unemployment rate was expected to drop to 3.9% in 2018 and beyond.<sup>5</sup> January's rate (2018) was 4.1%, a 17-year low. The rate averaged 5.79% from 1948–2018 and reached a record high of 10.8% in November 1982. It hit a record low of 2.5% in May 1953.<sup>6</sup>

Low unemployment rates help the economy by boosting production, providing easier job access, increasing consumer buying, and reducing government borrowing.<sup>7</sup>

Growth in wages and jobs also added to the rosy economic outlook. More than 200,000 jobs were added to the U.S. economy in January 2018, with wages rising at the fastest pace in 8 years. Wages were 2.9% higher compared to the same time a year earlier.<sup>8</sup>

On the production side, gross domestic product had grown by at least 3% in the last 3 quarters of 2017. The last time the economy grew at this rate for 3 quarters in a row was in 2005.<sup>9</sup>

Many analysts believe the volatility of early 2018 that stirred the market angst may have emanated ironically from the robust economy. The fear that the Federal Reserve would raise interest rates to slow growth or that inflation from rising wages would kick in supposedly spurred many market investors to abandon ship.

In 1996, former Federal Reserve chairman Alan Greenspan reportedly coined the phrase "irrational exuberance" to describe "unsustainable investor enthusiasm that drives asset prices up to levels that aren't supported by fundamentals."<sup>10</sup>

Add to the mix the unexpected rise of the market to unprecedented highs, which triggered low electronically set points of sale. The Dow closed at a record high of 26,616.71 on January 26, 2018. It had set 96 new record closing highs since President Trump's 2016 election.<sup>11</sup>

The biggest player in the recent market drama, however, may have been what was unseen: the abnormal lack of volatility in the market. The wild early February 2018 ride more aptly reflects the norm in a market accustomed to ups and downs.

The S&P 500 had undergone average annual corrections of 14% since 1980. But 2017 stands out for its unusual and uncharacteristic calm, fluctuating only 3%.<sup>12</sup> The S&P 500 went 400 days without losing more than 5%, the longest streak since the 1950s.<sup>13</sup>

Financial history may explain some of the stress associated with a suddenly volatile market. Most market drops are also eventually followed by recoveries. The S&P 500's 15 worst days, when the market fell by an average of 8.16%, remained down the day following the initial drop but, in 13 of those cases, recovered by about 21% a year later.<sup>14</sup>

Despite the market tumult of February 2018, the best advice is the simplest: step back, look large, be cool, and stay limber.

The initial reaction to market spikes and sharp drops might be to make a quick exit or make a wrong move. It's natural to question your investment strategy when the market gets rocky. As financial professionals, we provide these recommendations to help keep you calm, focused, and educated.

## TURN IT OFF

Everyone has an opinion. And in the world of electronic media, “everyone” is often wrong or, at best, contradicts everyone else. Cable network business news, investment websites, newspaper financial pages, even social media. Modern media has a thousand voices, mostly journalists and professional writers, speaking all at once, trying to get your attention and persuade you of their subject-matter expertise. But they lack a very important ingredient: consensus. You, however, hire a team of financial professionals who do the in-depth analysis and market monitoring for you. We’ll keep you informed of important changes and shifts in the market. Tune out all the noise, and let us do the heavy lifting for you.

## LOOK AT THE BIG PICTURE

Short-term market fluctuations can stir all sorts of emotions and lead you into making unwise investment decisions. Step back, and take the long view. Are you investing for 10, 20, or 30 years or longer? Viable investment strategies generally outlast volatility that typically lasts days, weeks, or months. Although past market performance cannot serve as an indicator or predict future trends, the S&P 500 has generated an average 11.53% annual return during most of its existence.<sup>15</sup> That percentage includes the Great Depression’s 83% plunge, 1987’s bear market drop of 33.5%, and other sharp market declines.<sup>16</sup>

## RESIST THE TEMPTATION

Volatility can play rough with your emotions. Stocks fall, as they did in early February 2018 or any time in financial history. The temptation to jump ship during a downturn is strong. But timing the market’s trend line is nearly impossible. It rarely maintains a steady upward trajectory but darts up and down and back up again—in a kind of strange dance (2 steps forward, 1 step back, over and over again). What may appear to be a peak before a precipice may simply be a brief correction on the way to new highs. On the other side, what may appear to be a slight dip before a wild ascent could be that unexpected market plunge. Don’t fall for it.

## CALM DOWN

In a nutshell (and to emphasize the previous point), the stock market goes up. And the stock market goes down. And back up. And back down. Up and down. Over and over again. That’s the normal flow of the market, despite the fact that for the last 19 months, it has been smooth sailing.<sup>17</sup> Is the smooth market over with? Are we back to market volatility? Maybe. Maybe not. But this roller coaster has been rolling for nearly a century, and it’s been going mostly up.<sup>18</sup> So what’s the takeaway? Stay calm, and take a deep breath. Watching the market too closely—especially when it nosedives or blasts off to the blue skies—can produce unwarranted stress or false exuberance. Finding the exit door or entrance ramp on a jittery market is all but impossible for even the most studied investor.<sup>19</sup> For the sake of your blood pressure, take a step back.

## DO THINK TWICE

On the other hand, a volatile market (even it becomes the norm again) is no reason to sit on your hands. Passivity is just as bad as hyperactivity. Prudence, in all of its manifestations, is key to finding investment success. A flexible investment strategy allows you to take advantage of opportunities that arise on the market horizon. Connecting with a financial professional may be the best move you can make to ensure your money is working for you.

## WHAT’S NEXT?

The wild market ride of February 2018 may be behind us. Or we may face more ups and downs and return to the volatility of previous years. But keep in mind that the bouncing trend lines are not necessarily indicators of pending financial doom or of pots of golden opportunities at the end of the investment rainbow.

As financial professionals, we wade through the deluge of market information to extract the pertinent factors and investment influencers. As investors, you remain focused on your goals in the knowledge that serious financial professionals are keeping watch over the monetary details for you.

We will connect with you personally if we believe changes in your investment strategies are needed against the backdrop of our most recent analyses. If you've undergone any recent life changes or decided to shift your financial goals and require portfolio changes, let us know at your earliest convenience.

If you have questions about current events or recent market news that may affect your strategies, contact us at (325) 235-1718.

Sincerely,



DMI Wealth Management & Insurance Solutions

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Past performance does not guarantee future results.

- <sup>1</sup>[https://www.washingtonpost.com/news/wonk/wp/2018/02/05/why-the-stock-market-is-selling-off-explained/?utm\\_term=.f5606415ca8f](https://www.washingtonpost.com/news/wonk/wp/2018/02/05/why-the-stock-market-is-selling-off-explained/?utm_term=.f5606415ca8f)  
<sup>2</sup><http://money.cnn.com/2018/02/06/investing/stock-market-turmoil-global/index.html> <sup>3</sup><http://money.cnn.com/2018/02/07/investing/stock-market-today-dow-jones/index.html>  
<sup>4</sup><https://www.thebalance.com/us-economic-outlook-3305669>  
<sup>5</sup><https://www.thebalance.com/us-economic-outlook-3305669>  
<sup>6</sup><https://tradingeconomics.com/united-states/unemployment-rate>  
<sup>7</sup><https://careertrend.com/about-7393470-low-unemployment-rate-good-.html>  
<sup>8</sup><http://money.cnn.com/2018/02/02/news/economy/january-jobs-report-2018/index.html>  
<sup>9</sup><https://www.marketwatch.com/story/three-in-a-row-us-gdp-could-hit-3-again-and-match-best-streak-since-2005-2018-01-25>  
<sup>10</sup><https://www.investopedia.com/terms/i/irrationalexuberance.asp>  
<sup>11</sup><https://www.thebalance.com/dow-jones-closing-history-top-highs-and-lows-since-1929-3306174>  
<sup>12</sup>First Trust, Staying the Course, 12/31/17  
<sup>13</sup><https://www.reuters.com/article/us-global-markets-volatility/explainer-investors-burned-as-bets-on-low-market-volatility-implode-idUSKBN1FQ2GL>  
<sup>14</sup>First Trust, S&P 500 Performance After Its Worst Days, 6/17  
<sup>15</sup>[http://pages.stern.nyu.edu/~adamodar/New\\_Home\\_Page/datafile/histretSP.html](http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html)  
<sup>16</sup><http://www.yardeni.com/pub/sp500corrbear.pdf>  
<sup>17</sup><https://www.usatoday.com/story/money/markets/2018/01/31/big-swoon-past-two-trading-days-sign-stock-market-calm-over/1081306001/>  
<sup>18</sup><http://www.businessinsider.com/annotated-history-of-volatility-2014-7>  
<sup>19</sup><https://realmoney.thestreet.com/articles/07/03/2017/stop-trying-predict-market-tops-and-bottoms>