

## Weekly Market Commentary December 31, 2018

### The Markets

Investing during the month of December was like traversing an icy mountain stream. It delivered a staggering shock to the senses that triggered the instinct to, “Get Out!”

When it comes to investing, that instinct is called loss aversion. For many people avoiding a loss is more important than realizing a gain. Simply put, not losing \$100 is more important than gaining \$100. <sup>[1]</sup>

Erica Goode of *The New York Times* talked with psychologists Daniel Kahneman and Amos Tversky about a series of experiments they had conducted to measure loss aversion. The pair found relatively few people would bet money on a flip of a coin unless they stood to win at least twice as much as they might lose. <sup>[1]</sup>

The desire to avoid losses is the reason many people sell stocks when the value of the stock market is declining. Unfortunately, it may be a poor choice for a variety of reasons. For example,

- **Downturns are temporary.** The *Schwab Center for Financial Research* evaluated the performance of the Standard & Poor’s 500 Index since 1966 and found, “the average bull run for more than four years, delivering an average return of nearly 140 percent. The average bear market lasted a little longer than a year, delivering an average loss of 34.7 percent.” <sup>[2]</sup>

While past performance is no guarantee of future results, understanding the history of gains and losses in bull and bear markets is critical because it can help investors avoid potentially costly mistakes.

- **Markets rebound.** Consider December 26. It was the best day for stocks in nearly a decade. The Dow Jones Industrial Average rose 1,000 points, posting its biggest daily gain in history.

Investors who were not invested in stocks missed an opportunity to participate in a market rebound. Despite significant gains late in the month, there is a chance this will be the worst December performance since 1931, reported *MarketWatch*.

<sup>[3, 4]</sup>

- **Your long-term life and financial goals have not changed.** Sometimes, investors have to traverse an icy stream, or muck across a muddy patch, as they move toward their goals. Your portfolio was built to help you reach specific life and financial goals. It is well diversified to help moderate losses when you encounter challenging market conditions. Consequently, if your long-term goals have not changed, selling during a downturn could make it more difficult to reach your goals.

However, if you are experiencing a high level of discomfort as the stock market fluctuates, it may be important for you to re-evaluate your risk tolerance and make any changes necessary to your asset allocation.

One of the most important aspects of our work as financial advisors has little to do with asset management or investment selection. It has everything to do with helping our clients make better financial decisions. We try to provide information and advice – coaching, if you will – that may help our clients avoid mistakes that may make it more difficult to achieve their goals. We also encourage clients to embrace choices which are likely to help them reach their goals.

If you find yourself debating whether to hold your investments or sell them, please give us a call before you do anything. We welcome the opportunity to talk with you about what is happening and offer some context which may help set your mind at ease.

If changes are necessary, we can help you identify options and weigh the pros and cons of each. Our goal is to help you reach your goals.

Data as of 12/28/18	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	2.9%	-7.0%	-7.5%	6.5%	6.2%	11.1%
Dow Jones Global ex-U.S.	0.7	-16.8	-16.6	1.7	-1.4	4.4
10-year Treasury Note (Yield Only)	2.7	NA	2.4	2.2	3.0	2.1
Gold (per ounce)	1.7	-1.4	-0.9	6.1	1.2	3.8
Bloomberg Commodity Index	-1.4	-12.0	-11.6	-0.1	-9.4	-3.7
DJ Equity All REIT Total Return Index	-0.1	-4.3	-4.3	4.1	8.2	13.5

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

**SYNAPTIC PRUNING AND HABIT STACKING...**If you have some New Year's resolutions you would really like to keep then you may want to try habit stacking. It is an idea that harnesses brainpower to help you achieve your goals.

Brains are powerful tools. They help us form connections and, when those connections are no longer used, our brains conduct synaptic pruning to get rid of the connections, according to James Clear author of *Atomic Habits*.<sup>[5]</sup>

As a result, our brains are full of strong connections that support certain skills. That is the good news. The bad news is, by a certain age, we have trimmed a lot of neurons, which can make it challenging to form new habits. <sup>[5]</sup> Clear wrote,

“When it comes to building new habits, you can use the connectedness of behavior to your advantage. One of the best ways to build a new habit is to identify a current habit you already do each day and then stack your new behavior on top. This is called habit stacking... For example:

- After I pour my cup of coffee each morning, I will meditate for one minute.
- After I take off my work shoes, I will immediately change into my workout clothes.
- After I sit down to dinner, I will say one thing I’m grateful for that happened today...” <sup>[5]</sup>

Once you have mastered habit stacking, you can begin to form chains of habits. Imagine where that could take you!

## Weekly Focus – Think About It

“Excellence is an art won by training and habituation: we do not act rightly because we have virtue or excellence, but we rather have these because we have acted rightly...”

–Will Durant, American philosopher <sup>[6]</sup>

From the Team of Advisors at J M Brown Financial Partners

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\* This newsletter was prepared by PEAK.

\* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

- \* The DJ Global ex US is an unmanaged group of non-U.S. securities designed to reflect the performance of the global equity securities that have readily available prices.
- \* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- \* Gold represents the London afternoon gold price fix as reported by the London Bullion Market Association.
- \* The DJ Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- \* The DJ Equity All REIT TR Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- \* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
- \* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
- \* Past performance does not guarantee future results.
- \* You cannot invest directly in an index.
- \* Consult your financial professional before making any investment decision.
- \* To unsubscribe from the "Weekly Commentary" please reply to this e-mail with "unsubscribe" in the subject line.

## Sources:

- [1] <https://www.nytimes.com/2002/11/05/health/a-conversation-with-daniel-kahneman-on-profit-loss-and-the-mysteries-of-the-mind.html?pagewanted=all&src=pm&module=inline>
- [2] <https://www.schwab.com/active-trader/insights/content/7-tips-weathering-bear-market>
- [3] <https://www.cnbc.com/2018/12/26/us-futures-following-christmas-eve-plunge.html>
- [4] <https://www.marketwatch.com/story/stock-market-ends-wild-week-in-negative-territory-as-dow-sp-500-set-for-worst-december-since-1931-2018-12-28>
- [5] <https://jamesclear.com/habit-stacking>
- [6] <http://blogs.umb.edu/quoteunquote/2012/05/08/its-a-much-more-effective-quotation-to-attribute-it-to-aristotle-rather-than-to-will-durant/>