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"Welcome to the Roller Coaster"

By Tommy Williams, CFP®

Market volatility earlier this month startled investors like an unexpected gust of wind. Ben Levisohn of *Barron's* offered a brief rundown of the potential factors triggering investors' unease:

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- **The yield on 10-year Treasuries rising to a seven-year high.** As interest rates rise, bonds become more attractive to risk-averse investors. They move money from stocks into bonds and that can push stock prices lower.
- **Federal Reserve Chairman Jerome Powell suggesting the Fed funds target rate could move higher.** Investors worry the Federal Reserve is too hawkish and will raise rates too high, too quickly, causing economic growth to stumble.
- **A speech by Vice President Mike Pence indicating tensions with China may persist.** Companies that export to, or manufacture goods in China are at risk if relations between China and the United States don't improve.
- **Earnings reports showing tariffs negatively affecting some companies' profit margins.** *FactSet* reported, *"the term 'tariff' has been mentioned during the earnings calls of 12 S&P 500 companies to date, with six of [them] citing a negative impact linked to tariffs."*
- **The International Monetary Fund (IMF) lowering its economic growth projections.** Concern about the impact of trade tensions on companies around the world led the *IMF* to lower some of its economic growth estimates for 2018.

Whatever the cause of the two-day decline, markets regained some lost ground by the end of the week.

Barron's Randall W. Forsyth wrote, "What turned the U.S. markets around [on October 12th] – when the Dow and the S&P 500 managed to pop more than 1 percent and the NASDAQ Composite bounced over 2 percent – wasn't much clearer than what set off the slide. Market Semiotics' Woody Dorsey says that his proprietary sentiment polling found a bullish reading of absolute zero on Thursday, a contrarian indication that 'panic' would be short-lived."

While sharp drops in share values are never comfortable, it's important to consider the bigger picture. A contributor to *Bloomberg Opinion* wrote, *"This decline follows a market that has tripled since 2009, had zero volatility in 2017…This was the 20th time since the bear market ended in 2009* *that the Standard & Poor's 500 Index had a one-day loss of 3 percent. The NASDAQ-100 Index had its eighth 4 percent down day (although it was the biggest one-day fall since August 2011)."*

In other words, selloffs are normal and we have experienced them before.

So, what can we take away from this?

1. First, it was a reminder that stocks are volatile investments. They have the potential to deliver higher returns than other asset classes because they require investors to take higher levels of risk.

2. Second, stock market volatility is one reason we allocate assets and build well-diversified portfolios. Holding different asset classes and diverse investments within a portfolio can help reduce the sting of unwelcome surprises.

3. Worries about what the future may hold are likely to ruffle investors and we may see additional bouts of market volatility.

With these points in mind, take some time to consider your portfolio and how it was built to help you achieve your financial goals. You may want to evaluate how your goals and risk tolerance have changed. Your trusted financial advisor can certainly serve as a guide while you re-evaluate and make any potential changes to your long term financial plan.

We're hoping for calmer markets ahead, but we may be in for a bumpy ride.

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