October: One of the Worst Months in Nearly a Decade and It Came Without Warning

Market Volatility: What Does It Mean for You?

While 2017 proved to be a very healthy and non-volatile year on Wall Street, volatility returned in 2018 and the recent stock market fluctuations have created a roller coaster ride that has attracted the media.

Market observers noted that by April, for 2018, the S&P had moved at least 1% about 40% of the time. That is the most moves of 1% since 2009. *(Source: cnbc.com 4/11/2018)*

Some driving factors in volatility's strong comeback in 2018 include:

- Rising interest rates
- Inflation
- Geopolitical uncertainty and global trade issues (including tariffs)

Although they can test your nerves, market pullbacks and corrections are a normal part of the investing cycle. Historically, a market correction (10% decline) happens approximately once per year. A 5% pullback happens about three times per year.

MAGNITUDE OF MARKET FALL	HISTORICAL FREQUENCY
-5% or more	Three times per year
-10% or more	Once per year
-15% or more	Once every 2 years
-20% or more	Once every 3.5 years

Source: NASDAQ.com

FALL VOLATILITY: THREE OF THE WORST CASES IN HISTORY

It may be helpful to put the recent media-grabbing falls into perspective. While most experts are saying it is very unlikely that the fall of 2018 will produce a crash in the equity markets, some of the most dramatic equity drops of all time occurred during fall.

Black Tuesday 1929

The stock market crash of Oct. 29, 1929, marked the start of the Great Depression and sparked America's most famous bear market. The S&P 500 fell 86 percent in less than three years and did not regain its previous peak until 1954.

Black Monday 1987

The S&P 500 lost almost 30% during 39 trading days in 1987. However, in just one day, on Monday, October 19, 1987, the Dow Jones Industrial Average (DJIA) lost 23%, the worst day since the Panic of 1914. This bear market was short (compared to others) and long-term investors were rewarded with an 845.2% return over the next 13 years.

September 29, 2008

The DJIA fell 777.68 points. Up until this year when the DJIA closed down 1,175 points on February 5, 2018, it was the largest point drop in history. This was predicated by major news like Lehman Brothers declaring bankruptcy and the Fed announcing bailouts. The fourth quarter of 2008 also had additional large one-day points drops, including 678.91 on October 9, 733.08 on October 15, and 679.5 on December 1. *(Sources: NBCnews.com 9/28/2018; The Motley Fool 3/26/18; the balance.com 9/8/18; businesesinsider.com 2/5/18)*

When you analyze these declines, they are smaller when framed in percentage terms. In fact, the notable day on Friday, February 2 became more noteworthy with Monday's consecutive decline. Friday's 666 point decline in the Dow Jones Industrial Average was the sixth largest drop ever (it became the seventh after Monday's drop).

Of course, that historical move was in point terms. In percentage terms, the 2.54% drop was just the 538th largest one-day decline at that time. Monday's drop was far greater than Friday's, so it can be helpful to put Monday's move and the two-day meltdown for the Dow Jones Industrial average in a historical context. To do that you can reach back to equity market movements since 1900.

The top table from Seeking Alpha shares the ten largest point drops in the Dow Jones Industrial Average since 1900. The combined sell off of over 1,800 points is obviously historic. However, when you look at these movements from a percentage standpoint, they tell a concerning, but perhaps different, story. In percentage terms, those two trading sessions were far from top percentage declines on the Dow Jones Industrial Average.

The bottom table shares the largest percentage declines since 1900, and also adds those two sessions. While February 5 created the largest move in point terms, it was just the 108th largest single day decline in the 118-year dataset.

DOW JONES INDUSTRIAL AVERAGE (DJIA)
LARGEST POINT DROPS SINCE 1900

1.	**February 5, 2018**	**(1,175)**	**-4.60%**
2.	September 29, 2008	(778)	-6.98%
3.	October 15, 2008	(733)	-7.87%
4.	September 17, 2001	(685)	-7.13%
5.	December 1, 2008	(680)	-7.70%
6.	October 9, 2008	(679)	-7.33%
7.	**February 2, 2018**	**(666)**	**-2.54%**
8.	August 8, 2011	(635)	-5.55%
9.	April 14, 2000	(618)	-5.66%
10.	June 24, 2016	(610)	-3.39%

Source: seekingalpha.com

DOW JONES INDUSTRIAL AVERAGE (DJIA)
LARGEST PERCENTAGE DROPS SINCE 1900

1.	October 19,1987	(508)	-22.61%
2.	December 14, 1914	(15)	-20.53%
3.	October 28, 1929	(41)	-13.47%
4.	October 29, 1929	(31)	-11.73%
5.	October 5, 1931	(10)	-10.73%
6.	November 6, 1929	(26)	-9.92%
7.	August 12, 1932	(6)	-8.40%
8.	March 14, 1907	(7)	-8.29%
9.	January 4, 1932	(6)	-8.10%
10.	October 26, 1987	(157)	-8.04%
108.	**February 5, 2018**	**(1,175)**	**-4.60%**
539.	**February 2, 2018**	**(666)**	**-2.54%**

Source: seekingalpha.com

SAVVY TIPS FOR INVESTORS

The current market volatility is uncomfortable, but it's not unusual or unexpected. Markets rise and retreat. While we can't control what happens in Washington, on Wall Street, or on Main Street, we can control how we prepare for and respond to the resulting gyrations. Thoughtful goal identification, sound financial planning, disciplined investment management, and responsive client service are things we can control. Investors who succeed do so long-term by sticking to their plan, especially when markets are dicey. Let's recap key points that can help keep you grounded during turbulent times.

Tune Out Media Magnification

Please do not react to the media magnification of these market moves. With easy access to information through a multitude of news sources and media outlets, you may be influenced by potentially misleading information and actions. We recommend that you focus on executing an investing strategy that is most appropriate for your situation. Adhering to a long-term investment plan often requires taking the news with a grain of salt and putting the impromptu advice of others on the back burner.

It can be difficult to make rational investment decisions when the markets are fluctuating. During these times, it is prudent to resist the temptation of watching news reports and obsessively watching portfolio performance. Sometimes, the more information you have, the more likely you are to make a decision that deviates from your long-term strategy.

Consider These Three Questions

Should the markets experience unnerving fluctuations, ask yourself:

1. Have my financial timelines changed?
2. Have my financial goals changed?
3. Has my risk tolerance changed?

Part of our regularly scheduled review process is to understand your financial situation and goals and to make sure you have the right mix of assets. But, if you answered "yes" to any of these questions, or if you have any questions or concerns that you'd like to discuss before your next review, please call us.

Think with Your Head, Not Your Emotions

Too often emotion, not logic, rules on investing habits. As we have discussed in prior reports, it is imperative that investors remain unemotional. We believe in having a good, long-term plan, and then sticking to it through the peaks and valleys that have always been a part of financial markets.

Our investment management process is about consistently making good decisions over time. Sometimes over the short-term, good decisions don't produce desired results. Even if your time horizons are long, you may see short-term movements in your portfolios in the fourth quarter. But, we maintain our "proceed with caution" approach that has paid off over full market cycles.

Sometimes the most difficult thing to do in investing is nothing at all. Nobel Laureate Daniel Kahneman, considered the father of behavioral economics, suggests that, "we would be better investors if we just made fewer decisions."

Seek the Help of a Professional

No one can predict the future, and past performance is no assurance of any financial return. However, a skilled financial advisor can help make your journey easier. Our goal is to understand our clients' needs and then try to create a plan to address those needs. If you have any questions or would like to discuss your investment strategy, please call us.

FALL VOLATILITY

Stocks are at all-time highs, but historically, fall can be a bumpy ride for investors. A long-range study from 1928 to 2017 found that October and November are historically the months of the year with the biggest share of 1% day moves (up or down) in the S&P 500, with October having a decisive 1.3% lead over November.

The good news from this study is that when the S&P 500 has gains in August and September, it historically has rallied through the end of the fourth quarter for a 2% average gain.

"Whenever the S&P 500 has been up in August and September, two months that are usually very challenging for stocks, the S&P 500 has risen in price 13 of 16 times, or 81% of the time, for the remainder of the year," said Sam Stovall, chief investment strategist at CFRA.

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