PAUL R. RIED FINANCIAL GROUP, LLC
SECURITY FOR YOUR FUTURE

April 2016 Market Commentary
April 1, 2016

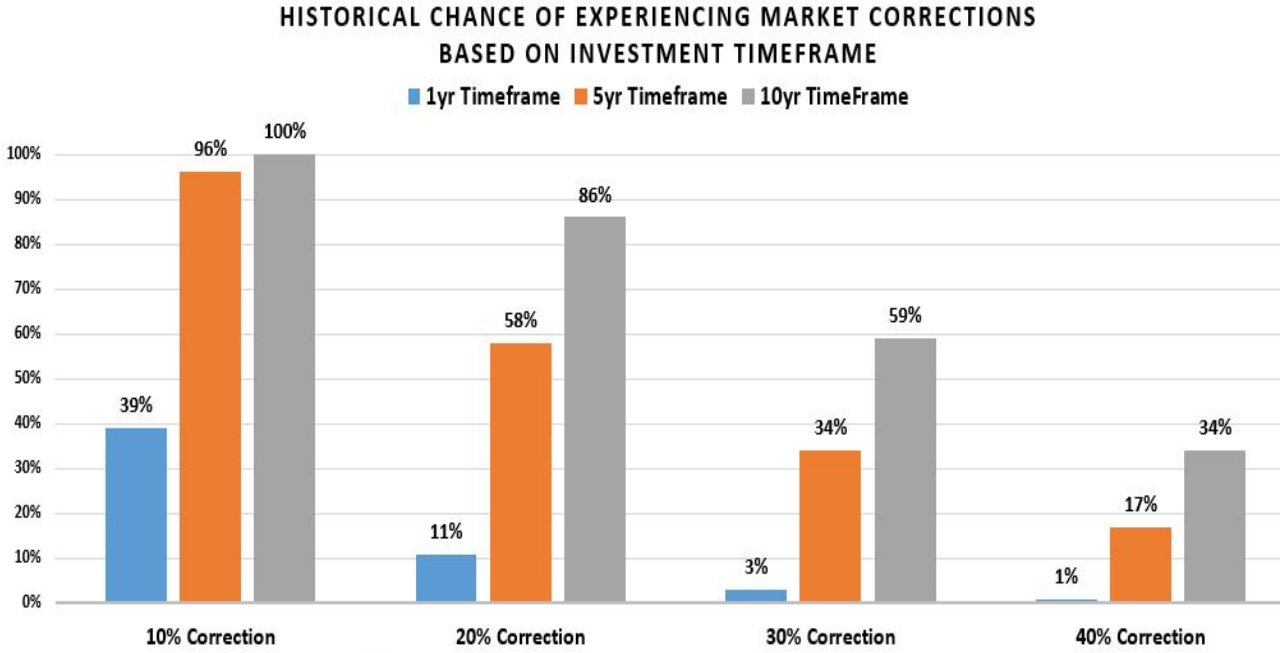
Dear Clients,

It has been quite an interesting start to the year. After falling nearly 10% on continued worries of a global slowdown, the market (as measured by the S&P 500) rallied strongly and is now essentially flat for the year.

Putting Market Corrections in Context

While it is easy to get caught up in the day-to-day news and market volatility, it's important to put market corrections in context. As long-term investors the question is never really if you will experience significant corrections, only when. History teaches that market corrections, even large ones, are to be expected.

Below we put together a chart showing the historical odds of experiencing market corrections, of varying sizes, going back to 1940. This chart includes every 1, 5 & 10 year timeframe using monthly rolling periods. As this chart shows, the 10% correction we saw to start this year is extremely common.



Source: Morningstar direct. 1/1/1940 - 2/29/2016 Based on S&P 500 PR index (does not include dividends) using monthly rolling returns.
Paul R. Ried Financial Group, LLC

While the chances of a long-term investor experiencing steep market corrections are quite high (especially as you increase the timeframe), the chances of actually ending any particular period with negative returns also drops dramatically as you increase the timeframe.

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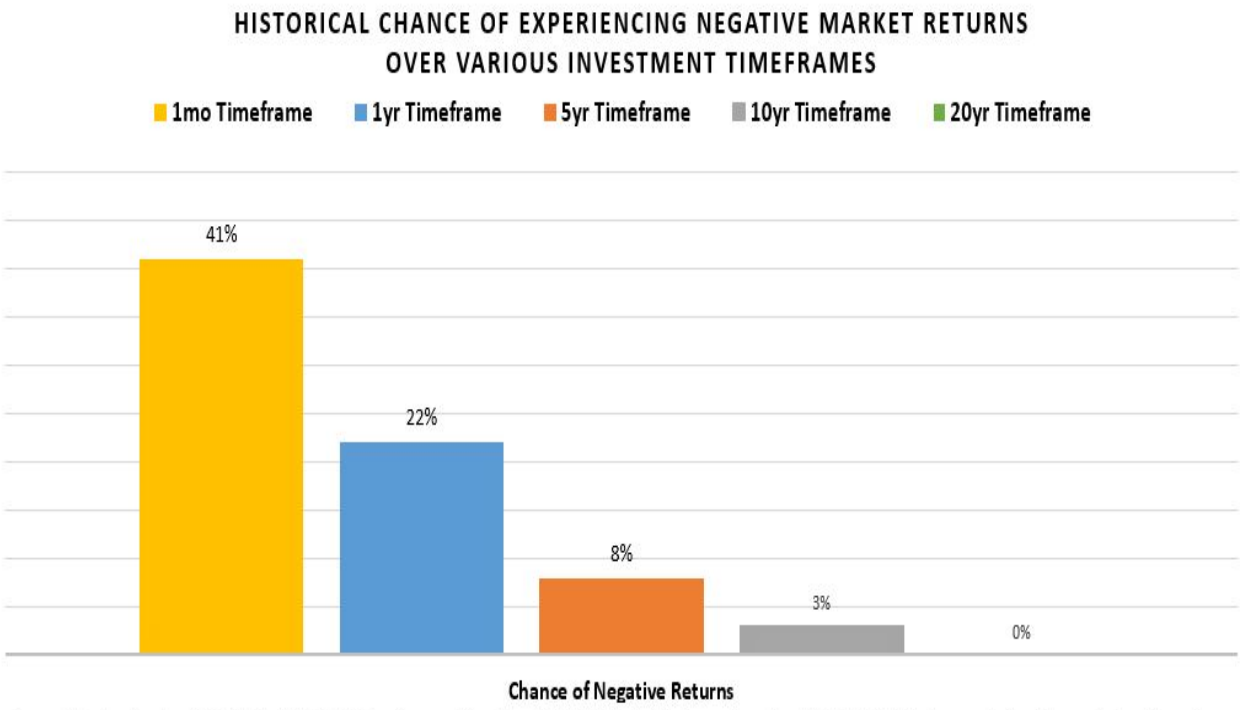


Source: Morningstar direct. 1/1/1940 - 12/31/2015 Based on monhly rolling S&P 500 PR index (for 1mo returns) and S&P 500 TR index for remainder using quarterly rolling returns. Paul R. Ried Financial Group, LLC.

Knowing that market corrections are an inevitable part of investing is why it is so important for investors to understand their individual risk tolerance. If you take on the full risk of the market, you are likely to experience the full brunt of corrections. This is why it is essential to have a diversified portfolio tailored to you. While a diversified portfolio doesn't prevent losses, the goal is to dampen the magnitude of corrections to levels tolerable by each individual so they can stay on course.

A local magazine recently reached out to us (along with other advisors in the area) asking if we were given a certain amount of money today, how would we invest that money to maximize returns over various time periods? We didn't end up submitting an answer because we think it omitted the most important part, the risk temperament and risk capacity of the person whose money we were investing. An unfortunate truth is that investment strategies are nearly worthless if they cannot be adhered to for the full duration for which they were designed. When it comes to investor returns, an investors psychology can play a much bigger factor in their outcome than their portfolio. Portfolios cannot just be matched to a timeframe, they must also be tailored to the investor.

Another Election Year

I'm not sure what would have lower odds, picking a perfect bracket for March Madness or turning on any TV news channel for a 24-hour period and not hearing a completely irrelevant piece of "news" about the upcoming presidential election.

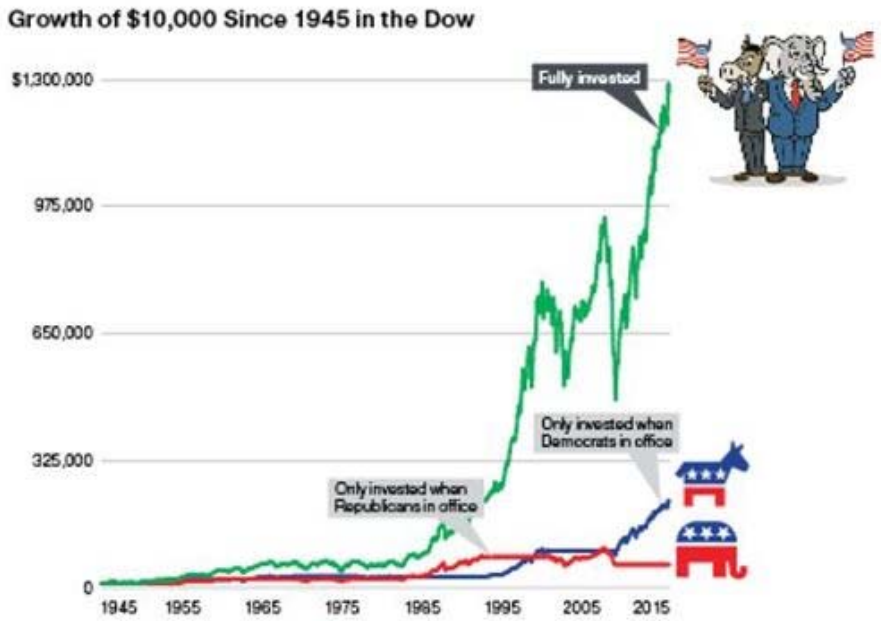
However, if I were catching someone up on where things currently stand in regards to the election, I would give them these few points based on prediction markets.

1) Hillary Clinton currently has an 87% chance of being the Democratic Nominee[1].
2) There is currently a 71% chance of the Republicans having a brokered convention[2].
3) The odds are currently 70% that the Democrats win the election[1].

The second point above will be of particular interest because a brokered convention would open the door to the possibility (however remote) that the Republicans introduce a new candidate which has not had their name run through the mud during this nasty primary season. It is also likely one of the few things which would have a chance of reducing the current 70% odds being given to the Democrats.

With that said, it can be difficult for people to separate their political leanings from their investment decisions. However, history would tell us that making decisions to invest (or not invest) based on political parties would not have been a winning strategy.

In the chart below, the red line represents an investor who was only invested in the market when a Republican was president, the blue line for Democrats, and the green line represents an investor who simply stayed invested through the whole time period. (In case you are wondering, a Democrat held office in 35 of these years and a Republican held office for 36 years during this timeframe).



Source: Bloomberg, 12/31/15. **Past performance does not guarantee future results.**
Source: OppenheimerFunds "Investors Clear Election Choice: Stay Buckled in" 2/29/16

There are all sorts of stats thrown around this time of year regarding presidential elections and the stock markets, however, essentially all these sorts of stats are statistically insignificant. In fact, statistically speaking, the winner of the Super Bowl is a far better predictor of the stock market than the president[3]. The reality is that global economic trends are the dominating factor in market returns, not who happens to be sitting president of one country.

“The most important quality for an investor is temperament, not intellect.”
--Warren Buffett

A well designed portfolio is crucial, but the ability to stay disciplined through the market’s inevitable ups and downs is paramount. That includes avoiding the temptation to chase the markets for fear of missing out, as well as resisting the urge to sell when markets correct.

We are dedicated to assisting you in meeting your long-term goals and objections. As always, should you have any questions don’t hesitate to call or e-mail our office.

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[1]-Betfair.com 3/31/16 [2]- predictit.org 3/31/16
[3]- http://www.wsj.com/articles/at-nearly-90-super-bowl-stock-analyst-has-a-streak-going-1452482753