As you may know, we are nearing the end of a very difficult quarter for stocks after years of relatively calm markets. This type of setback can be unnerving, but it's important to realize that even diversified portfolios sometimes experience dramatic setbacks. The chart below looks at the worst four quarters for a global stock asset class portfolio in the last two decades (since 1995).

Time Period	Total Return	Next 12 Months for Stocks	Next 12 Months for Bonds
July to September 1998	-16.9%	25.2%	4.4%
July to September 2002	-19.3%	33.5%	4.7%
July to September 2011	-20.9%	26.9%	3.9%
October to December 2008	-25.2%	33.4%	4.2%

There is always an urge to switch to a more defensive portfolio during downturns. But history finds that diversified stock portfolios have been resilient in the face of uncertainty, often recovering most of their lost value over the next 12 months. Relatively safer short-term bonds don't tend to decline as much (or at all) during declines, but also don't rebound nearly as much as stocks. **Making dramatic portfolio changes in response to difficult stock markets is usually a mistake.**

For clients who are still saving for retirement, the downturn presents an opportunity to direct additional savings to their plan at temporarily depressed prices, even if that means just continuing to contribute to your 401(k). Retirees, understandably, view these declines with greater concern in the face of ongoing withdrawals. **I see no evidence that short-term declines affect the prospects for long-term investing success.**

The table below illustrates the experience of hypothetical investors who retire at the beginning of each year listed in the first table. The simulations assume a $1M portfolio that is tasked with producing $50,000 (5%) per year in income adjusted annually by the rate of inflation. All stock and balanced portfolios are shown.

Retirement Starting In...	Nov 2018 Value (100% Stock)	Nov 2018 Value (65% Stock, 35% Bond)
1998	$2.28M	$1.70M
2002	$2.15M	$1.65M
2008	$947K	$995K
2011	$1.47M	$1.21M

I will review your investment plan with you soon and we can discuss this an any other pertinent topics. If you would like to talk before, please don't hesitate to call or email. In the meantime, enjoy your holiday!

Stock Allocation = 21% DFA US Large Company (S&P 500) Fund, 21% DFA US Large Value Fund, 28% DFA US Small Value Fund, 18% DFA Int'l Value Fund, 12% DFA Int'l Small Value Fund, rebalanced annually.

Bond Allocation = DFA Five-Year Global Fixed Income Fund

65/35 Allocation = 65% Stock Allocation, 35% Bonds, rebalanced annually.