StoneRidge Wealth Management
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The Quarterly Profit

A WILD RIDE

January's market was downright nasty. There was nothing good about it until it was over, and the quick drop of more than 9% in two weeks is already being recognized as one of the worst Januarys on record. January's drop was a surprise, since the markets had mostly recovered from August's plunge. The Dow was bouncing around the 17,700 level throughout the holidays and finished the year with a small loss of about 2.5%. Any market loss is disappointing of course, but following such a challenging late summer and fall, I breathed a sigh of relief for the relatively minor damage and looked forward to a positive 2016. After all, the U.S. economy continued to be one of the few bright spots in the world; employment numbers were steadily increasing, construction activity was robust, and the U.S. consumers were keeping their wallets open. But the markets hadn't enjoyed quite enough of their August anxiety, and headed south for another round. From the opening bell on Monday, January 4th, through February 11, the markets tumbled and skidded before landing at virtually the same point as they had after August's plunge. Surprisingly, global concern over China's slowing economic growth rate was mostly responsible for both market drops, with oil, terrorism, and our elections adding several layers to the market's uncertainty. Cooler heads don't always prevail. A leading trader for Royal Bank of Scotland advised clients to "sell everything", Albert Edwards of Societe Generale predicted a U.S. market drop 75%, several hedge funds closed their doors, and money flooded out of mutual funds. Such overreaction is puzzling when there is little evidence of fundamentally negative economic forces.

So, here we are at the end of April with the Dow having recovered and broken the 18,000 mark again. How should we feel about the last ten months, and what might we expect for the remainder of the year? If we believe the talking heads and the doom and gloom guys, the bull run is over and the market will surely tank, our economic recovery is smoke and mirrors and the positive employment figures are phony, the Dollar will be replaced by China's Yuan and inflation will wipe out our savings, the elections will take us over the cliff and Social Security will be taken away, our national debt will be called in by China and we'll all be cleaning the world's public facilities within the next 25 years.

On the other hand, we should take some real comfort because the markets did recover from their recent lows, as they always have and probably always will. Let's remember that the markets are always working their way upward unless they are not, and the short term "nots" are to be expected. The Dow was around the "50" mark in the Great Depression and has made its way to the 18,000 level again. (Continued…)

A WILD RIDE (continued)

The 10% average annual market growth since WWII has included four gut wrenching drops and numerous happy feet highs. As uncomfortable as this election cycle is, with the extreme political rhetoric and the violence at recent political rallies, let's not forget the Democratic Convention of 1968 when the SDS attacked both the police and the delegates. The radio shock jocks claim that we're in a most dire situation and that we had best buy gold and move to Canada. But we're hardly falling apart; our country is simply going through another iteration of earlier cycles. We've experienced the Korean War, Vietnam, Civil Rights struggle, Kent State, the oil embargo, recessions, assassinations, the tech bubble, Sept. 11, subprime mortgages, 2008, and the many years of horror and tragedy in the Middle East. What is so threatening today? Our current cast of presidential candidates may not make the A list, but no one person can possibly be expected to lead us to green pastures anyway, and our imperfect form of representative democracy will cope with whomever is elected. Life goes on, and the markets will continue to move forward.

With that being said, I would like to use these last ten months of market volatility as a hands on learning opportunity; the net loss was not serious but the two 10% plunges along the way were certainly disturbing. Let's begin this review in our next quarterly meeting, and make it our focus for the remainder of the year. We enjoyed six consecutive years of market recovery and growth from 2009 through 2014 before 2015 handed us a small loss. Even though our portfolios are recovering nicely from January's drop and have a reasonable chance of turning in a solid performance in 2016, should the last nine months of volatility be a wake-up call? Should we discuss the "what if's" a little more? The Federal Reserve will continue to slowly raise interest rates. Would we be wiser to include more bonds and fixed income in our portfolios? It's been eight years since the 2008 meltdown; are we prepared for a sudden and serious market hit, possibly caused by hacking of global proportions or some other catastrophic event? Do we have enough cash reserves in the bank?

To help prepare for the next wild ride and to reduce whatever level of inherent anxiety, StoneRidge will soon be offering a more formal risk analysis and planning profile for our clients. We want to be as responsive as possible, utilizing the very best tools available as we help our clients manage their wealth. This is part of our fiduciary duty. And always, thank you for your continued trust and confidence, especially during these volatile markets.

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