



February 2018

Dear Clients and Friends:

It is time to step back in time for a little story. As you know by now, I enjoy telling personal stories and then drawing parallels to the investing market. I hope this one is enjoyable and beneficial to you.



Grandparents, Dad & Aunt with Uncle Jack

My Dad Patrick, and his sister Brenda, grew up on a small ranch in East Texas. Specifically in the community of Tenaha in Shelby County on Flat Fork Creek. Extra credit to any of you who are familiar with the old Tex Ritter song [Tenaha, Timpson, Bobo and Blair](#). Anyway, for a few years in the early 1950s that ranch became somewhat of a unique story.

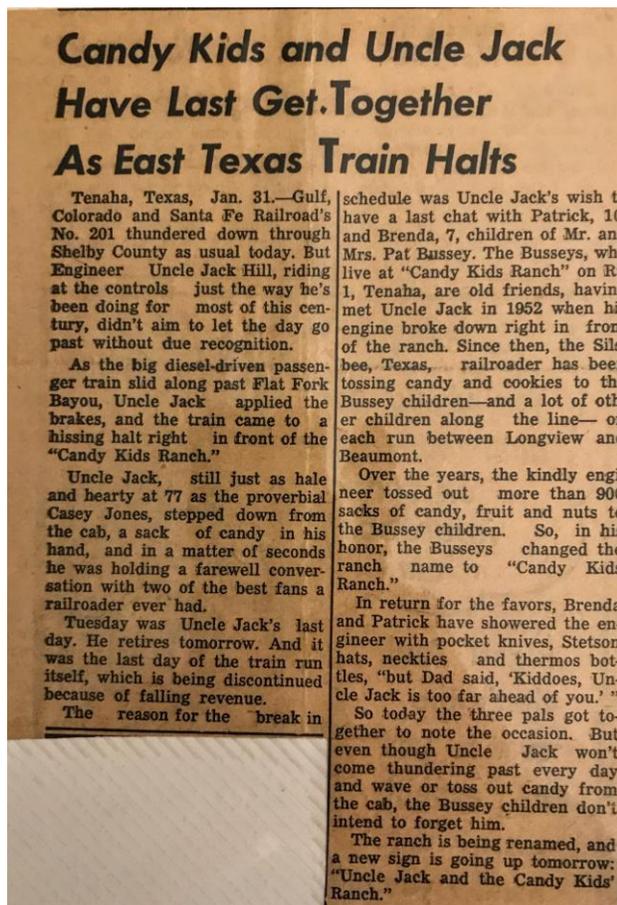
There was a train track that went through the property and back then the Gulf, Colorado and Santa Fe Railroad number 201 train went by

a couple of times each week like clockwork on its run from Longview to Beaumont. But back on March, 3rd 1951, the train stalled right in front of my grandparent's ranch. It sat stalled there in front of the ranch house for about 4 hours while Uncle Jack (the conductor) and the crew fixed it. On that cold day, my grandmother Lois and my young dad and aunt carried hot coffee and cake out to the crew to maybe provide a little something happy on a bad day. That gesture meant a lot to Uncle Jack he told Pat and Brenda to go out to the track the next week when he came by and to wave at the train. Next week came and they went out, as Jack directed, and when the train came upon the ranch he slowed the train down and threw out 2 sacks of candy-1 each to my dad and aunt.

This went on for quite a while. Nearly 5 years to be exact until Uncle Jack retired and during that time, he threw out around 900 sacks of candy, cookies and nuts to Pat and Brenda. It even made the papers and my grandparents renamed the ranch The Candy Kids Ranch. Imagine the joy of being a kid and having something as cool as a train conductor throwing you candy every time the train went by. It is truly the stuff childhood dreams are made of. Maybe in a future letter I will even tell you about my Grandmother Lois' sister Reable, who went to prison in the late 1930s and then became the star of the [all female prison band](#) that was heard around the world on the radio. No kidding, the story is currently in development for a movie with Jennifer Aniston as my great aunt and is currently running as an off Broadway show in NYC.

But I digress. So, you see Uncle Jack and the train and the candy were predictable. Those 2 kids knew that they could expect to be showered with something special every single time that train came barreling down the tracks. All they had to do is go out and waive and Uncle Jack would be Santa Claus of the railroad. In the world of kids this isn't a problem, but in the world of investing it is a little bit different.

The stock market has been like Uncle Jack in the past few years. Almost like clockwork, it has seemingly gone up without fail-like the conductor throwing out the candy. Investors have gotten accustomed to the predictability of a low volatility market. Problem is that that recent history is not normal. In fact, in 2017 there were only 4 days where the S&P 500 was down more than 1%. And the largest drop in 2017 was only 1.82% in a day. While that made it easy for people to sleep each night it also created a complacency that has to be watched out for.



He that waits upon fortune is never sure of dinner-Ben Franklin

I have written in multiple past letters about Recency Bias, which is our tendency to believe that something is more likely to happen again because it has occurred in the recent past. You can also say the inverse is true, meaning that the longer it has been since an event took place, the less likely we are to believe it will happen in the future. Shark attacks happen very rarely, but in a year where there are headlines of shark attacks, people will greatly overestimate the probability that more attacks will occur and they will stay out of the water. With investing, recency bias makes us feel that a rising market will continue to rise and a falling market will continue to fall. You can't drive a car by looking in your rear view mirror and we should never invest that way either. The past can be a guide, but never a definitive map. The abnormally stable and rising market during 2017 can create a false sense of security in investors' minds and blind them to the longer term realities of investing. You should not let yesterday be the guide on telling you what to do tomorrow with your money.



Blessed is he that expects nothing, for he shall never be disappointed.-Ben Franklin

Remember Rocky IV? Rocky was fighting the Russian Ivan Drago and he seemed unbeatable. In typical Rocky fashion, the fight turned and Rocky hit Drago and made him bleed. Rocky's trainer says, "[You see Rocky, he's Not a machine, he's a man!](#)" I am writing this on February 5th as the Dow has just gone down a record -1,175 points after being down 666 points the previous trading day. Shocking numbers no doubt, but what it is though is a break in what seemed to be the norm. The market was not a machine that only does one thing. Last week was the worst week in stocks in 2 years. Today was the worst point drop in history and the 108th worst percentage drop. Sometimes it takes shocks like this to remind people not to be complacent nor honestly to take on risk based on the recent history versus what their actual goals are.

Remember, my goal is to have diversification in portfolios. I use managers who have the ability to invest across multiple styles and areas of the market. No doubt that many of them lost money in recent days, but most of them have the ability to get defensive if needed in times of volatility. With this diversification, some managers will do well at the same time others may not be. Investing in all stocks might have been great for the past 2 years, but was probably not anywhere near the risk most investors would be comfortable with. I work to build more of an all weather portfolio that can navigate the different scenarios the market gives us. But, as you know, the only weather we recently have had up until the last few days has been sunny and pleasant.

Back to Texas, eventually Mr. Jack retired and the kids grew up. The kids probably even realized that a diet of only candy is not the best thing for you. While Jack was predictably coming by and throwing candy all was good, but times change and people evolve. We often don't know when a bag of candy is coming our way. Maybe the change in the market this week was our bag of candy to wake us up to a change in what we thought was normal. My advice is to go out there and waive for it. You never know what is going to get thrown your way.

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