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Steady as She Goes!

Greetings!

I was in the office on Saturday writing a client letter. After Monday's 4.5% drop, I decided to make a few changes. The following represents my beliefs.

During bull markets, we often see volatile periods. They usually come around when something changes.

What Has Changed?

Over the last two weeks:

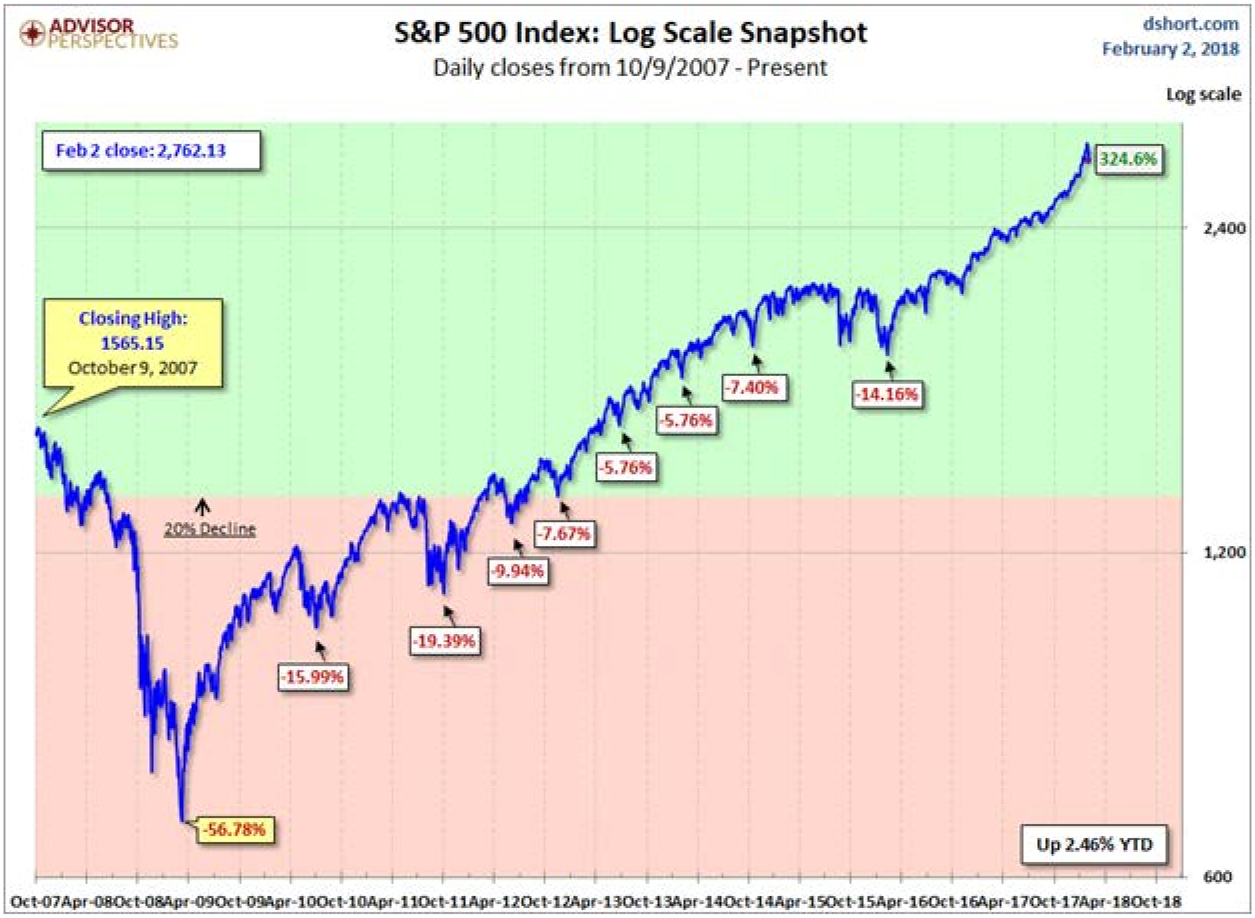
- Interest rates have moved up a bit
- I believe many market participants (mostly professionals – not the public) are reacting to the *potential* for higher levels of inflation and interest rates
- This is something new – and there has been a lot of speculative money "betting" on the *wrong* side of the markets. This is being adjusted, causing the volatility.

Although too much inflation can bring an end to a growth cycle, there are few signs of it at this time.

Bull Markets Generally Don't Go Straight Up

The chart below depicts the current bull market. As you can see, during the upward phase of a stock market cycle, there are often many periods during which the markets "pullback," or "correct" – before resuming the upward trend.

In each case, *long-term investors* deciding to "step-way," due to the volatility (until "the skies have cleared") may have made a mistake.



Source: Advisor Perspectives. Used by permission.

First of all:

- What is a "long-term investor?" It is an investor who has a portion of their assets invested for the potential for above-bond returns on the *stock portion* of their portfolio
- By definition, the stock portion of one's portfolio ought to be able to endure the bull and bear phases of the market cycle
- This is why we have discussions about your stock to bond balance.

Also:

- Although not depicted on the chart, this is the 9th "pullback" during this cycle
- Each of the pullbacks did not, generally, happen for no reason. There is usually something that makes professionals, on balance, reduce holdings – even if temporarily
- If you reacted to each pullback, you may have missed the trend
- Although past performance cannot guarantee future results, the upward trending portion of the cycle is why those in stock *are* in stock in the first place

- The cost is the requirement that our stock portion may have to endure the recession phase of the cycle.

The Crux of the Issue

Since WWII, through the end of the last cycle ending June of 2009:

1. The average economic expansion has lasted **58.4 months**
2. The average contraction has lasted only **11.1 months**. (1)

In summary:

- The markets can become volatile over the short-term
- We'll endure a recession someday. Recessions are part of the journey
- Economic expansions have lasted much longer than recessions
- I don't believe the upward (bull market) trend has changed
- Although things can change at any time, we currently have "synchronized global economic growth" – and it has accelerated in recent months
- Let us hold steady.

As always, please call me with any questions or concerns.

Best!

Larry
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Sources:

1. National Bureau of Economic Research (NBER)

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The S&P 500 is an unmanaged index of 500 widely held stocks.

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