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WEALTH MANAGEMENT

The Horrible, Terrible, No-Good Financial Crisis of 2018

It was a crummy quarter for investors. You don't need me to tell you this.

From a new all-time high on September 20th, the S&P 500 fell 19% to a low occurring on an abbreviated Christmas Eve trading session. Since then (as of January 9th), markets have bounced back a bit and currently sit 11% off those September highs.

It is times like these where we feel perspective and historical context are important to understanding what's going on. But, just last quarter, we wrote a retrospective on the collapse of Lehman brothers and the financial crisis of 2007-2009. A lot of the points we made then read particularly salient today after a three-month drawn down of global equity markets. But, since we just talked about the Great Recession, I want to use some other examples to put the past few months into context.

The Forgotten Crises of the 2010's

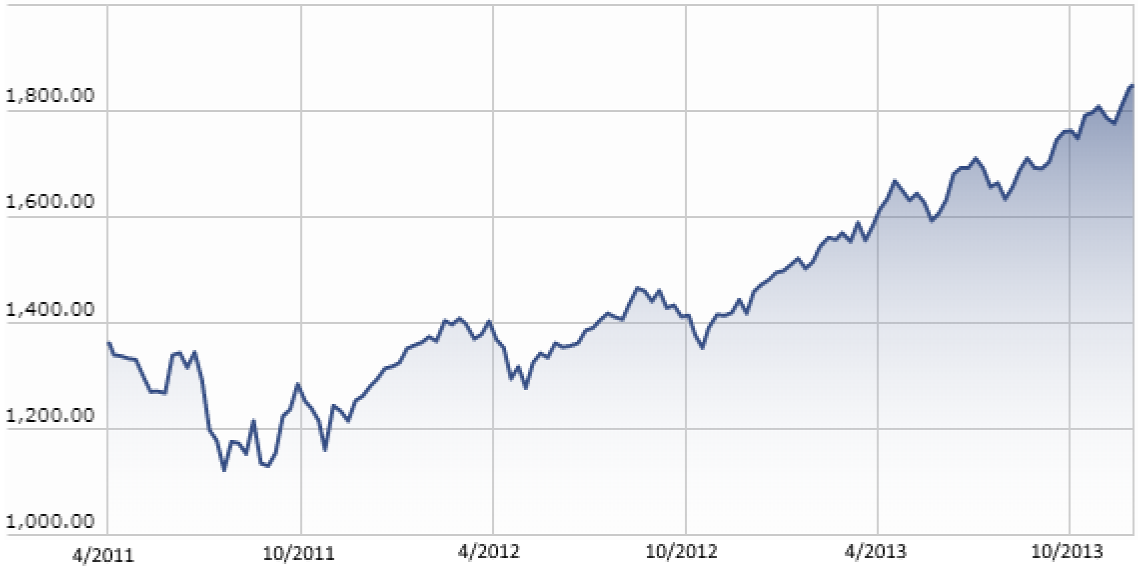
Whenever markets are thrown into turmoil, our minds naturally gravitate toward fearing the worst. We think about the big ones like the Great Depression, the 1987 stock market crash, and the housing crisis. What we don't think about are all the other smaller, but still significant, market pullbacks that seem to occur several times each decade. The media likes to remind us that we've been in a "nine-year bull market". As such, it can be easy to forget that the journey over those nine years has been far from a straight line to prosperity.

2011

In mid-2011 markets were thrown into turmoil by the European Sovereign Debt crisis. Several European nations were staring down default on government debt threatening to create an international panic. On domestic shores, Standard & Poor (the rating company, not the index) downgraded the United States' credit rating for the first time in history from AAA to AA+. Markets did not respond kindly, in the short-term.

From a high on April 30th, 2011 to a low on October 3rd, 2011, the S&P 500 saw a total decline of 19% over 156 days. There were a lot of calls heralding a second Great Recession. However, over the subsequent 156 days, the index rose 24% and continued to pick up steam through the rest of 2012. Then, 2013 came along and rewarded investors with a further 32% gain.

S&P 500 *4/30/2011 - 12/31/2013*



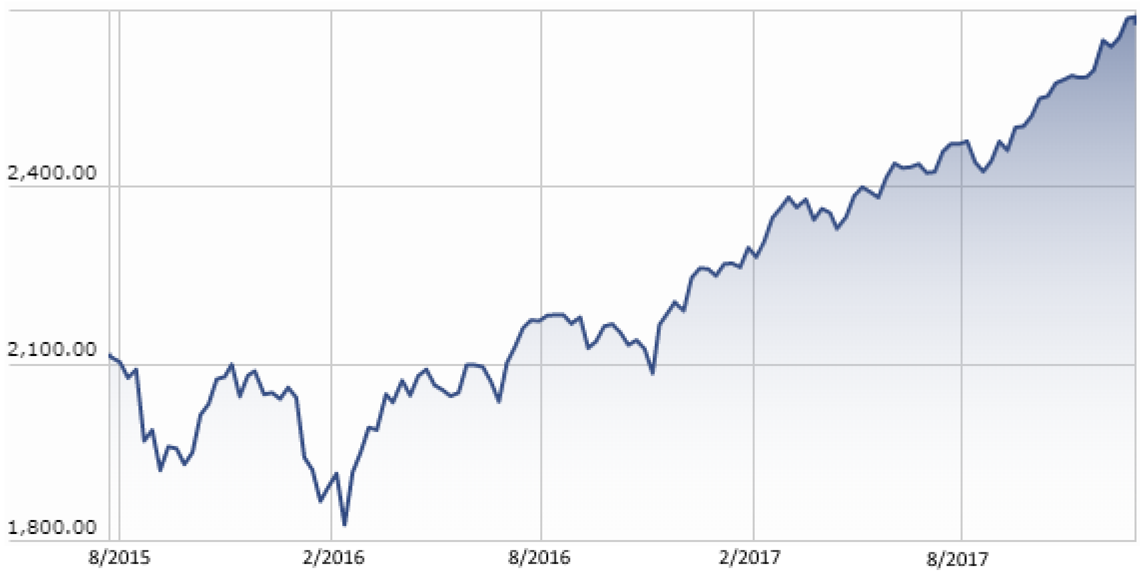
2015-2016

The second half of 2015 and the first few months of 2016 met investors with a bevy of recession-ready headlines. Greek debt defaults. Oil hits 13 year low. Chinese devalue their own currency. Impending Brexit vote. At one point, a leaked letter to clients from the Royal Bank of Scotland earnestly recommended that investors “sell everything”.

The S&P 500 hit a new high on July 20th, 2015. After that markets swiftly declined 12% over the next 36 days. Through the rest of 2015, markets were able to claw back most of those losses before tumbling again with a -11% return over the first 42 days of 2016.

From the low on February 11th, 2016, the S&P 500 gained 23% through the rest of 2016. Then, I’m sure we all remember how 2017 went - a positive 22% return paired with historically low volatility along the way. The previously mentioned Royal Bank of Scotland letter leaked in mid-January of 2016. Investors that heeded their warning would have escaped a short-term single-digit decline, then missed out on gains in excess of 50% by the end of 2017.

S&P 500 *7/20/2015 - 12/31/2017*



So, What About 2018?

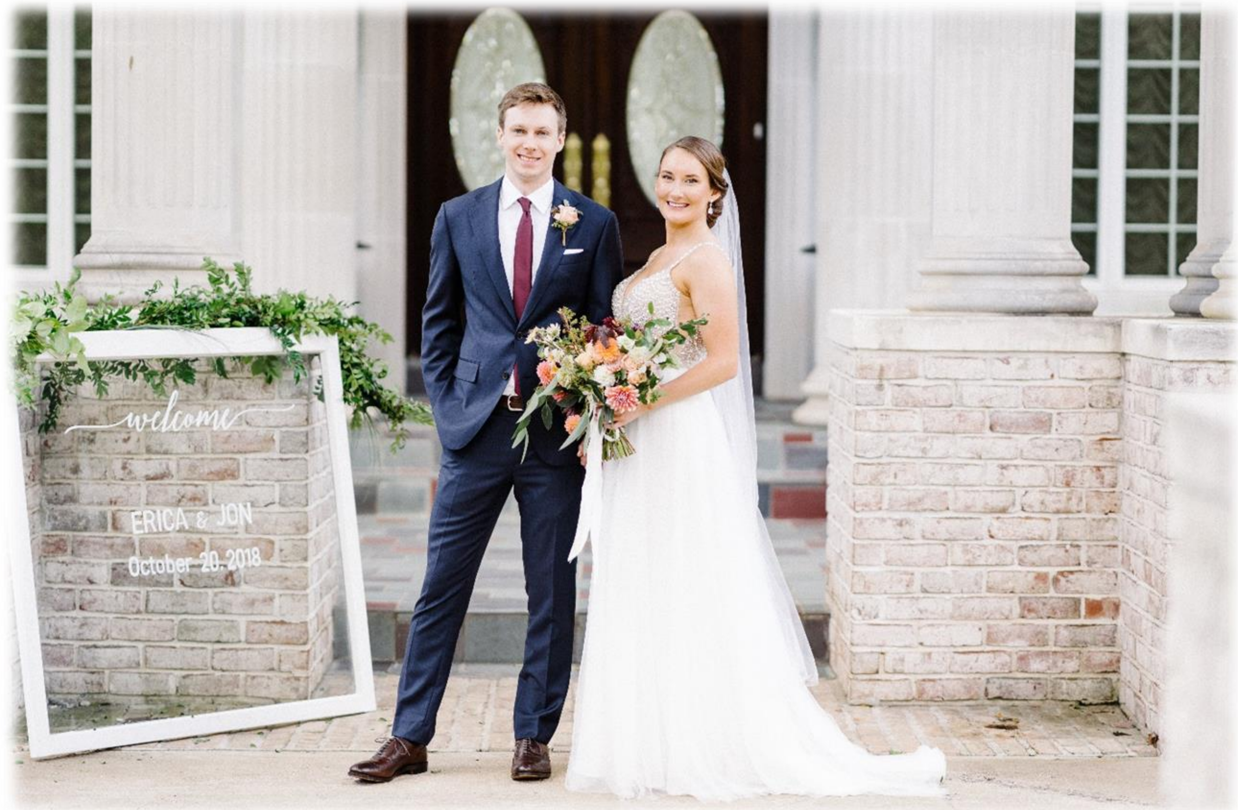
The market pullbacks illustrated above both rewarded investors that had the discipline to stick with their portfolios through tough, uncertain times. There are a lot of similarities between what's going on now and what happened in those examples. However, you will never catch us forecasting what markets will do over the next quarter or year. Stocks could very well revisit the December 24th, 2018 lows. Stocks could also wind up hitting new highs in just a few weeks or months.

In times of heavy market turbulence, I always get concerned remarks from friends saying "Hey, how are you doing with the market down so much? Your clients must be calling all the time to complain, right?" It's true that it's more fun to be a financial advisor when markets are doing well than when markets are doing poorly. However, when equities experience declines, we actually don't get all that many reactive calls from concerned clients.

I like to believe that we've done a good job at setting appropriate expectations and educating clients about what market declines mean *for them*. Our clients understand that markets will decline on a somewhat regular basis. It's part of the deal when investing in risk assets. They also understand that those losses are already factored in to their financial plans. The inevitability has already been accounted for, and they have confidence that they will make it out the other side.

Newlyweds

In more cheerful news, Jon Powell from our team got married this past quarter! He and his new bride, Erica, tied the knot on October 20th in Paeonian Springs, Virginia.



The wedding was lovely and saw Derek and Stacie in attendance. Jon and Erica honeymooned to Italy after the wedding. Fortunately, they were able to avoid the flooding in Rome and Venice that made headlines over here. We wish them a lifetime of happiness together!

Here's to looking forward to greener grass in the Springtime and greener numbers in the markets.

John, Derek, Jon & Stacie

Performance data and charting from Morningstar, as of 1/9/2019.

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