Interpreting Wall Street's Wild Swings Benefits from Perspective

The stock market sell-off continued Monday, as the Dow Jones Industrial Average and other major domestic indices saw a significant drop in early morning trading, regained some ground as the day progressed, but still closed down 3% to 4% for the day. Global markets were also down, notably in China, Hong Kong, Germany and the United Kingdom. The pullback appears to be driven by concern over slowing global growth, particularly as China's economy (one of the world's largest) falters, as well as the drop in commodity prices, namely oil. European debt issues in Spain, Portugal, Italy and Greece and geopolitical conflicts in several areas also rattled many market observers. All that combined with a relatively strong dollar took a toll on corporate earnings just as the Federal Reserve contemplates raising the federal funds rate.

Raymond James Chief Investment Strategist Jeff Saut, a long-term bull, said Monday morning that he believes the contraction is a necessary part of an ongoing secular bull market that potentially has eight or nine years left to run. Chief Economist Scott Brown also wrote on Monday that China's slowdown is likely to have a limited direct impact on the U.S. economy (China accounts for less than 1% of GDP), which remains strong on many fronts. China's predicament should have a bigger impact on exporters of raw materials (e.g., Australia and Latin America). We also saw a sharp drop in commodity prices (e.g., oil), which should benefit U.S. consumers and businesses, Brown said. In addition, concerns about global growth have pushed long-term interest rates down, which should help support growth in the U.S. in the near term.

Michael Gibbs, managing director of equity portfolio & technical strategy at Raymond James, reminded investors that this most recent decline mirrors the drawdown we saw last October, which was also triggered by global growth fears. He went on to assert that investors may have gotten complacent with "infrequent pullbacks over the past 38 months" and that recent stock stumbles may be enough to remove complacency from the equity markets, which is a good thing in his view.

I'm sharing this update with you to keep you informed about what's going on in the markets, and to let you know that I understand how market gyrations like the ones we've seen in recent weeks can be disquieting. I also hope to remind you that these movements are not unusual events for investors focused on a long-term strategy. In fact, intra-year declines of 5% or more are not uncommon; it has been 20 years since we experienced a year without one.

I'll also note that the volatility could provide an opportunity to selectively add positions that support progress toward your financial goals, as well as a chance to proactively look for rebalancing and tax-loss harvesting opportunities.

As always, our focus remains on disciplined long-term investing. In the meantime, we'll remain vigilant and continue to monitor market developments and update you accordingly.

If you'd like to discuss recent market events or want to review your portfolio as we head into year-end, please call me. I look forward to speaking with you.

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