Market Volatility

Recent market volatility has left many investors feeling confused at best, or perhaps flashing back to the feeling of watching their portfolio fall in the crash of 2008, at worst. After a long stretch of consistently positive returns and low volatility, it is easy to think that the big swings in stocks we've experienced marks the beginning of a new chapter in the market; and it very well may. But this might not be a bad thing.

Market corrections, after all, are normal- especially after prolonged bull markets like the one we've been enjoying. Corrections like these are generally quick, and they are rarely severe enough to necessitate wholesale reconsiderations of portfolio structures or market participation. While large fluctuations may shake weak hands and conviction, they also serve to remind us that equity investing requires the assumption of risk in order to generate return.

The causes of this particular period of market misbehavior appear to be related to interest rates; specifically, some are beginning to fear that stronger-than-expected corporate earnings, the newly enacted tax reform, and signs of wage inflation may spur the Federal Reserve to raise rates faster than anticipated and stifle economic growth. In our view, each of these data points is positive and reaffirms our view that the economy remains strong after a long period of sustained growth.

Behavioral finance tells us that humans are naturally loss-averse. We feel losses twice as acutely as we do gains, and this makes us particularly sensitive to events like those of the past week.

But investors can prepare for moves like this in several ways: they can take a long-term view of investing so that short-term events have minimal bearing on future desired outcomes; they can structure portfolios in a balanced way; and perhaps most importantly, they don't get in the way of their own investment results by letting emotions lead to imprudent responses to volatility.

Our team views volatility as an opportunity to add value for clients. We take a long-term approach to investing, allowing us to analyze and evaluate the securities in which we invest over 3-5 year periods rather than short-term market movements. We foster a culture of risk-awareness on our investment team that allows us to prepare for and anticipate the impact of events like rising interest rates. Finally, we structure our team and investment strategy offerings so that our clients can benefit from a multi-asset perspective to risk management, both through the offering of balanced accounts and a disciplined approach to managing across equity and fixed income investments.

While we are typically inclined to brush aside short-term market movements as distractions, volatility can be a reminder of the risks inherent in investing. However, we urge you not to conflate the two concepts. Risks are always present in the market; it is the willingness to weather volatility that provides the opportunity for reward. We continue to believe that a thoughtful approach to portfolio structure and long-term perspective are the most important considerations in any market scenario.

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