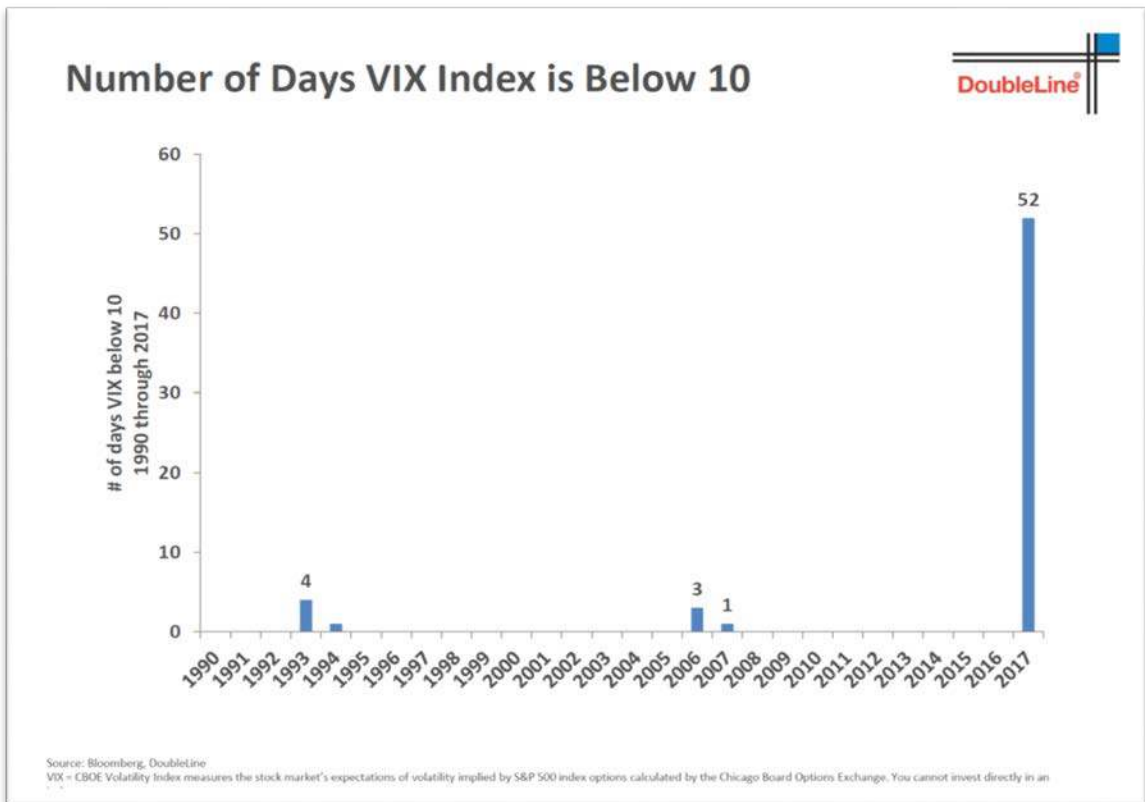


The Return of Volatility

The last week saw a return of volatility to global equity markets. While difficult to endure in the short term, volatility has historically been a friend to long-term equity investors. Corrections of ten to twenty percent are common features of equity performance, and in fact, often create opportunities for long term holders. 2017 was remarkable, not so much from a return perspective, but rather as a major statistical outlier in terms of very low volatility. The accompanying chart illustrates this point. In comparison, that makes this market drawdown feel “historic”, when in fact, a decline in excess of 4.00% in one session has occurred 32 times in the last 29 years. Determining fair value of equity markets in the short term is always a difficult call, but over longer time periods, stock prices follow company earnings, and expected corporate earnings remain robust for 2018. Equally important to note is that the financial system in general is far better capitalized than was the case in the 2008-2009 great recession period.

The most important decision for investors to focus on, at all times, is their degree of risk tolerance. Rather than focusing on attempts to call a short-term market bottom, investors are better advised to re-visit their tolerance for account drawdown and consequent asset allocation. This is what investors, working in tandem with their advisor, can control. Having the appropriate asset allocation commensurate to a stated risk tolerance, will greatly increase the likelihood of a successful financial plan.



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1.Luxon Financial, Morningstar Direct analysis 2.JPMorgan Asset Management Q4 Guide to the Markets 3.Doubleline Just Markets Webcast

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