

MARKET COMMENTARY

INVESTMENT STRATEGY GROUP

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Reacting to Market Swings

Backdrop

You've likely heard that the markets took another tumble yesterday. The recent decline in U.S. stock prices has flattened gains for the year.

Our economy and financial markets are experiencing a transition. The Fed is attempting to bring interest rates up after a long period at essentially 0%. Stocks and bonds, which have become expensive primarily because of the low interest rates, also need to transition to more normal valuation levels. Layer on the ambiguity associated with outcomes related to our administration's trade policy, and you have a financial transition coupled with large doses of uncertainty.

These circumstances have led to the lurches and surges we have experienced with U.S. and international stocks. Is this a sign of things to come or just temporary? The markets are trying to distinguish between the two, and in the process, are driving large price fluctuations.

What does this mean for you?

Do not try to time these market swings. While nothing has changed fundamentally, it's a good opportunity to rehearse some investing truths. One of those truths is that it is impossible to predict market swings. Trying to do so will often lead to worse investor outcomes. Also, keep in mind that volatility is the price of admission for a long-term investor. It is normal to experience these types of fits within stock markets and, fortunately, they are not correlated to longer-term investment outcomes. They merely create opportunities to reallocate capital to cheaper asset classes within the portfolio. This is something we are monitoring.

Ultimately, it points to the importance of your specific timeframe. When you need your money is an important determinant in asset allocation. We believe in setting aside shorter-duration, lower-volatility assets for near-term cash flow needs. Longer term, valuations permitting, we tend to allocate to longer-duration assets, like stocks, that can withstand the corrosive effects of inflation over time. Unfortunately, that requires a tolerance for near-term market swings. And while there are no guarantees in life, we believe this provides you with the greatest probability of experiencing satisfactory outcomes.

As always, we appreciate the trust you have placed in us, especially during difficult times. Please contact your advisor with any questions or to schedule a call with one of our investment strategists.

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