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VIEWS FROM THE BRICK

WELCOME TO THE GAME

"Is the Nasdaq happening?" This is what my wife asked me as I walked in the door on Monday night. In light of the moves across markets over the last few sessions it is important to take a moment to address some of the causes of these gyrations and how we should be digesting them. From stocks to bonds all the way to crypto currencies, there's been nowhere to hide. Even if you were in cash, you're likely to be even more terrified to jump in now if you were spooked out of the market for the last 12 months. Come on in, the water is fine.

SO, WHAT JUST HAPPENED?

Over the last week or so we've received a slew of economic data painting a pretty favorable picture of the U.S. economy. Reports showed strong growth, our first taste of lower taxes and rising wages (aka more money in consumer's pockets). Great news right? If this were HQ, you'd be politely asked to leave the game now. This, in turn, sent bonds and stocks down in unison (at a pace that seemed like a race for the bottom) due to justifiable fears that the Fed will tighten faster than is priced in the credit markets. Don't forget these higher wages, rising rates and all time highs in stocks were being topped with a very soft greenback. Cue the inflation music. All pieces of the puzzle we outlined coming into the year. Volatility within economic data plays a major role in today's market. For better or for worse.

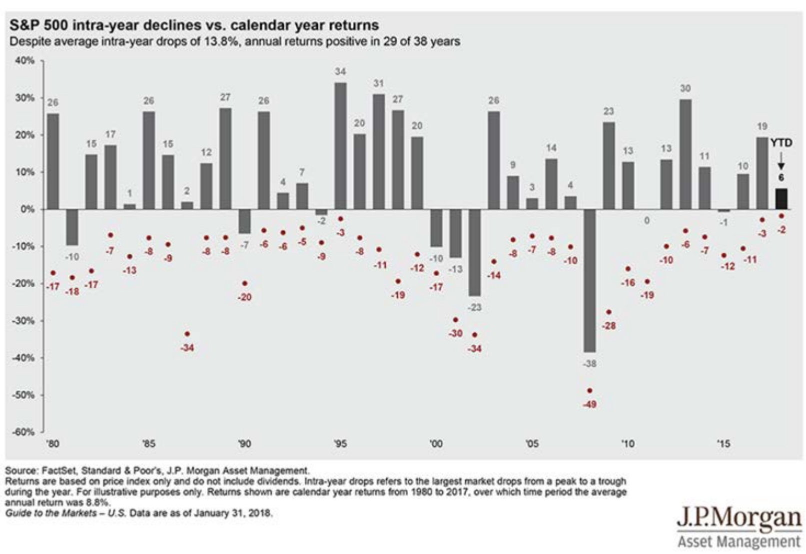
The moves in asset prices is a direct result of fiscal policy being brought to the stage at a time where economic capacity is reaching its limits. Very pro-growth policy in the late stages of an economic mixed with a dash of exuberance is like downshifting in the final stretch of a quarter mile drag race looking for extra horsepower. In this scenario interest rate increases are the breaks you're going to need to slam onto since the race is about to end. Don't forget, the brakes would be felt in the markets first, economy second. Some food for thought: bond markets tell us where we are, equity markets tell us where we're going.

This conundrum will do Chairman Powell no favors in getting the monetary policy side of this right. Which we need him to. (Miss Yellen yet?) This is late-cycle behavior that shouldn't be foreign to investors. Though it is more exaggerated when interest rates are coming from such historical lows, prices of assets are more sensitive to changes in interest rates than when interest rates are high.

We really can't say we're surprised by this. In fact, this is what we were talking about in the middle of 2017 when we cited calm waters were a time to trim the fat of a portfolio. But we can certainly admit the market's decision to take on this set of circumstances this early into the year is a bit ahead of us. Our eyes were on 2H of '18. Quite frankly they're there even more than before. These dips in price are nothing to scoff at.

THE NOT SO NEW NORMAL

Still, these big declines are just minor corrections in the big picture. Perhaps what's taken place over the last few days is best to be taken as a learning opportunity. We just had a swift reminder of what equities were capable of. We certainly would say they're more likely to behave the way they have over the last week more often than they have for the last few years. If this volatility was too rude of a wake up call, now is as good a time as ever to be reconsidering how you plan to reach your goals. Here is a chart from JPM showing price returns of the S&P 500 dating back 38 years. In 29 of the 38 years, the grey bars below are positive. Notice the red dots in those years. Almost each one of the 29 positive grey bars carry a red dot depicting a 5% drop on an intra-year basis or worse.



SOURCE: Chart provided by JPMorgan.. This presentation is solely for informational purposes and should not be taken as investment advice. For further information, please contact one of our investment adviser representatives.

NOW WHAT

Discipline. There are a few steps one can take, both passive and aggressive and they all require discipline. The portfolio allocation you've started this process out with hopefully was a diversified one. Diversification may seem like a silly argument at times like this, and admittedly so when correlations morph into one, there is little defense that can be made. But when correlations unravel like a bad back spasm, you're going to be rewarded for being allocated across different asset classes across different markets. Now isn't the time to think you got the allocation part of the process completely wrong. You're not alone right now, we promise. The only ones who came out of these days complete winners, have been completely wrong for a very long time. Discipline in knowing why you've approached your goals in the way you have to this point is key to coming out of these market times in good shape.

Rebalance. If you've neglected it until this point, chances are you were not so kindly reminded as to why you should be rebalancing on a routine, disciplined schedule. Allocation drift generates a risk profile you didn't intend on carrying on day one, and if you let it get away from yourself, you might have not been as well defended today as you thought you should have been. Go take a peek at your target allocation and get yourself in line.

Itchy fingers? Taking what Mr. Market (shout out Ben Graham) offers you is not how you need to be playing this game. It might seem like these flash crashes are in vogue and that recoveries these days happen before you can fill out a buy order. If you're interested in seizing this moment, just remember just because Mr. Market has lowered his price, doesn't mean it can't go lower. Now is a decent time to exercise your right for a GTC buy order. See a name you like? Know enough about the fundamentals you're still interested in owning it? Discount it even further than what's been thrown in front of you. This should help protect yourself from yourself while creating a cushion you never thought was possible.

You're in the game now.

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