October 2015

What A Crazy Year…

It has been in the market so far, and we're only three-fourths of the way through 2015. As you all have seen, and experienced, the U.S. stock market has had many dramatic shifts in direction and in degree through the first three quarters. It's been surprising, and at times it has been stressful, but has it really been all that unusual?

After a quick analysis of the market's action this year, we trust that you will understand that although the movements have been sudden, and somewhat severe, they are by no means historic or dangerous. The market moves this year are simply examples of how free markets move in times of uncertainty.

First of all, the basic story; the S&P 500 began the year in an upward trend. Many pundits and "experts" were quick to point out that with historically low interest rates, low inflation due to falling energy costs, and an improving U.S. economic outlook that it looked like another stellar year for the S&P 500.

However, after being up almost 10% in the first several months of the year, the market began to show some strains. Economic reports began showing signs of slower growth, and the market did not just shrug it off. Good earnings reports were met with indifference, but bad earnings reports were followed by substantial selling.

And so, by the end of the third quarter, the S&P 500 was off over 10% from its 2015 high, and was down almost 6% from the beginning of the year. Should we be worried? Is this the beginning of a bear market? How low can it go? Good questions, all.

Here's what we know. The global economy, while struggling under the perception of China's growth, or lack thereof, is basically unchanged over the last year. Fortunately, sub-standard growth statistics are not too far removed from no-growth statistics. Interest rates remain low, and energy prices remain subdued. Although investors have discovered that lower energy prices mean lower economic activity as well as lower inflation.

Here are a couple of facts that should help us weather the storm:

1. Since 1950, the S&P 500 has had 33 corrections of 10% or more. Generally speaking, it takes several months for these corrections to work themselves out – but they always do.

2. Long-term holding is always vindicated. A study put out by J.P. Morgan Asset Management last year examining the S&P 500's largest moves higher over a 20-year span (Dec. 31, 1993-Dec. 31, 2013) determined that the best course of action is to hold stocks over the long term, regardless of market volatility.

Per J.P. Morgan's research, $10,000 invested at the end of 1993 and left untouched through 2013 would have returned 483%. If you missed so much as the 10 best trading days over the aforementioned 20-year span, your gains dropped to just 191%. Miss the 30 biggest point gains on the S&P 500 in a 20-year span? Then you wound up making less than 20% overall and losing handily to inflation. Even if you avoided some of the largest downswings, you'd have no way of knowing with any consistency what days would end in rallies of 3% or more.
Source: The Motley Fool, J.P. Morgan

The point here is simple: Timing the market with any consistency is impossible over the long run, so your best course of action is to look past this recent volatility and stick to your investment plan. That is exactly what we are here to help you do. We trust that our management of your accounts is a source of comfort, not concern, for you, and we are always happy to take as much time as you need to explain what we are doing and why.

Thank you for your confidence in Paragon Capital Management.

Craig, Howard, Elizabeth, Ward & Brian

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