


In-The-Know Monthly eNewsletter

2016 Mid-Year Market Review
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When I meet with my clients to review their quarterly performance, a theme usually emerges. For the second quarter and 2016 to date, I feel "The Market," defined as the S&P 500, has taken us for a roller coaster ride. We have been on a thrilling and often scary ride, but are essentially right back to where we started. Going back to August 25, 2015, the S&P 500 fell 12.4% to 1,867 on the news of a global economic slowdown, China devaluing its currency, collapse of oil prices, and in my opinion, the Federal Reserve's continued mishandling of interest rates. But after that steep ride down, the S&P 500 climbed back 9.5% by the end of the year. Despite the 2015 roller coaster ride, the market ended just about where it started, up 1.38%. But we weren't allowed to exit the ride as we headed into 2016.

We were still greeting our friends and colleagues with "Happy New Year" when the roller coaster plummeted down 13.3% from its previous high. Why? The same theme of falling oil prices on world supply surpluses, US economic recession fears, and China's shrinking productivity. Every day we turned on the TV or radio and were greeted with news reporters spouting that this was one of the worst starts to the year in the market's history! I had clients telling me, "At this rate, I'll have no money by the end of the year!" It was indeed a very thrilling and scary start to the year. There are two things I do not want the market to be: Thrilling and Scary. If I want thrilling and scary, I'll spend a day at Busch Gardens.

Just when the market gurus and media pundits had us convinced that we were only half way down the hill, the market hit bottom and rocketed back up the track. In barely more than a month, the roller coaster market raced up to 2,049 by March 18th to push the S&P 500 into positive territory for the first time in 2016. From there, the market limped to March 31st with a first quarter gain of 1.35%. Again, there were many ups and downs without much change.

The second quarter's ride was quite smooth in comparison to recent quarters. There was a dip of less than 3% between April 20th and May 19th with the S&P 500 falling from 2,102 to 2,040 then gaining ground again to close at 2,119 on June 8th. The ride had gotten more tolerable and much less scary. The only issue on the horizon that was somewhat troublesome to the market was Great Britain's upcoming referendum to determine if they were going to stay in the European Union. The media, pollsters, and bookies had a field day forecasting the outcome of "Brexit" and its effect on the world's stock and bond markets. This anxiety attack caused a dip in the market to 2,071 by June 17th. However, those concerns that weighed on the market the first part of the year seemed to stabilize. China's slowdown seemed to calm, oil prices started to recover, and the world's markets were mostly positive by 2-4 percentage points. Interestingly, the Fed concluded that the US economy was still too anemic to raise rates. This, along with a strong indication of a "Stay" vote in Britain, propelled the markets back up to about 2,113 by the eve of the Brexit vote on June 24th. Then the British citizenry sent the world's financial markets into a tailspin by voting to leave the European Union, thus executing the feared "Brexit." The British pound plummeted to record lows. The international stock markets fell 10% and the S&P 500 fell 5% in two days. While writing this article, the international markets have recovered about half of that decline, the US market nearly all of it. But as we know, these numbers change daily and the impact of "Brexit" is certainly not known now. It might take years or decades to know if it was, in fact, a good decision for the British and/or the world. This challenge to the European Union is far from over. There are now rumors and thoughts of "Italeave," "Finish," "Czechout," "Oustria," "Byegium," and "Departugal." The world is always changing and we will no doubt cope just fine in the end.

So the question I'm getting now goes something like this, "Given all that has gone on this year, what do you think will happen for the rest of the year…or next year?" Obviously the markets will continue to go up and down. To what extent over a short period of time is impossible to forecast. So the better question in my opinion is, "Given all that has gone on this year, what do we do now?" My answer is very consistent with all the other times I've answered this question. "Stay invested on a well-diversified, well-allocated basis. Keep money you need in the short term in cash or near-cash. We are on a roller coaster for sure, but I'm convinced it will get you where you want to go in the long term, despite the harrowing dips and curves along the way. The worst thing you can do is jump off mid-ride.

There is no doubt that the world and we, as investors, have challenges ahead. It has always been that way. My fear is that while we are dealing with the ups and downs of life's roller coasters, we may forget to enjoy the ride. There are so many reasons for us to be positive. Here are a few:

- Over the last 25 years ending May 2016, one dollar invested in a global portfolio of stocks would have grown to more than five and half dollars. (1)
- Over the last 25 years, two billion people globally have moved out of extreme poverty. (2)
- Over the same time period, mortality rates among children under the age of five have fallen 53%. (3)
- Of course, there are many other reasons for continued optimism.

So the next time you find yourself on a roller coaster, please remember to do the following:

Scream from the Peaks and Hold Hands through the Dips

Laugh through the Loop-the-Loops

AND

Enjoy every Twist and Turn

Stay safe and enjoy the rest of your summer.

(1) As measured by the MSCI All Country World Index (gross dividends) in USD.
(2) "Human Development Report 2015: Work for Human Development", United Nations
(3) UNICEF Data: Monitoring the Situation of Children and Women

Mr. Jackson has been a presenter with NITP for over 14 years addressing both retirement and mid-career level groups. His areas of specialization are financial planning, investment management, tax and retirement planning.

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