February 7, 2018

Dear Clients & Friends,

The US stock market has seen turbulence last week and continues this week. Per Yahoo Finance, the S&P 500, an index of US stocks, fell 3.9% last week and was down 4.1% on Monday.

There are several reasons cited for the decline. First, the US economy continues to be relatively strong. In our strong economy, indications are the Federal Reserve may raise interest rates to fight against inflation. If this occurs, and interest rates rise, bonds become more attractive and borrowing rates increase. This tends to be a drag on the stock market, and therefore is a major contributor to the observed decline.

Another important factor is the current valuation of the stock market. As we've stated profusely in recent months, it is our belief that the US stock market is overvalued. In a highly priced market, there is not much room for error; this means that any small imperfection may "pop" the market and result in a decline. We've been prepared for this and have proactively managed our client accounts accordingly.

It is important to remember that this decline comes after 9 years of steady US stock market increases. The market has done exceptionally well and pushed index values to all-time highs; a market correction is not only expected, but may bring valuation levels more in line with reality.

This is also a great reminder as to why we counsel clients to keep funds needed for near-term purchases out of the stock market and instead should be held in money market or short-term bonds. This can help you sleep easier at night and not worry about day-to-day market movements.

If you have any questions, we're here for you.

Kindly,

Lance Gunkel, CFP®, CFA
Chief Investment Officer
lgunkel@OnlyWorkforYou.com