

Thursday, December 20, 2018

Good Morning,

As you know, we have been anticipating a stock market correction for quite some time. While the stock market selloff that began in late September took a pause in November, it has accelerated in December. (The S&P 500 is down 9% in the first three weeks of the month.) Sharp market declines and elevated volatility typically result from multiple concerns by investors. This recent selloff is no exception.

After markets made new highs in September, it was clear that stocks had become overvalued when compared to earnings and historical norms. Elevated rhetoric on trade tariffs, especially with China, began to scare investors. Concerns over the trajectory of interest rate hikes by the Federal Reserve increased as Chairman Powell indicated that rates were “far from neutral” in early October. (Stocks generally don’t like higher interest rates.) Shorter term Treasury yields were rising as longer term yields were falling. This is described as a flattening yield curve and is often (but not always) a precursor to recession. There are clear signs that many international economies are slowing which will impact the global economy and possibly the US.

The result of these multiple concerns is a decline of some 15% from the September highs and year-to-date losses on all major stock market indices. Of course, this has had a significant impact on portfolio values as even the most diversified and balanced accounts have lost ground. While the declines have been real and impactful, this is not 2008 all over again – when investors saw a third of their portfolios (or more) disappear. Our economy is still growing, although the level of growth may be softening.

Nobody knows whether stocks will continue to decline or if we have seen the worst of the selloff. Different ‘experts’ have widely differing opinion. We also know that it is impossible to time markets by making major investment shifts all at once. However, we realize that falling portfolio values can impact clients’ comfort levels and perhaps even their investment goals. We invest for long term growth and income understanding that short term setbacks are inevitable. If your circumstances have changed and your goal is now capital preservation, please let us know. Steps can be taken to reduce your exposure to stocks as we work through this volatile period. (By the way, if the selloff has you looking to add stock exposure at lower prices, we can help with that too!)

As always, we appreciate your patience and understanding as we work through this difficult period. As the holidays approach, we are grateful for time with family and friends and hope you will enjoy the same. Perhaps Santa will surprise us with a year-end rally.

Thank you,

Wade

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