

Wednesday, December 26, 2018

Good Afternoon,

There is no other way to say it; the past 90 days has been brutal for the stock market. From its all-time high in late September, the S&P 500 fell to bear market territory during Christmas Eve day – a decline defined by a drop of 20%. We have not experienced this level of decline in ten years. It is clear to us that many factors have influenced the selloff and we've outlined many of them in past updates (trade tariffs, Federal Reserve policy, slowing global growth, dysfunction in Washington, etc.). To the list we can add tax loss selling, whereby investors sell stocks with losses before year-end to record the losses for tax purposes. This creates an imbalance – many more sellers than buyers – and stock prices further accelerate to the downside.

One last major impact in this (and all previous) sharp stock decline is investor emotion. Fear and greed are the most powerful influences in stock movement and we've witness elevated fear in the past several weeks. Fear can distract people from long-term investment goals and influence decision making negatively. Stocks tend to create most of their gains during the year in just a few trading days, and if investors are on the sidelines those days they simply miss out. Today is a perfect example of a sharp rebound that some investors may have missed if their fear got them out of the market recently. As Warren Buffett famously stated, "Be fearful when others are greedy. Be greedy when others are fearful."

While we really, really liked today's rally, markets have many hurdles remaining before the 'all-clear' bell is rung. We never know when sharp declines or rallies are just around the corner. As the saying goes, it's time in the market, not timing the market that makes for the successful investor. Did I mention we really liked today's rally?! Santa's a bit tardy but he's doing his best!

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http://www.commonwealth.com/RepSiteContent/weekly_comm/commentary_redirect.htm

As always, if you would like to discuss this or anything regarding current market conditions or your portfolio, feel free to contact me at any time.

We'll talk again in the New Year! May it be happy, healthy and prosperous.

Wade

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