HUGHES FINANCIAL SERVICES, LLC

Equity Market Volatility: A Fall Forecast

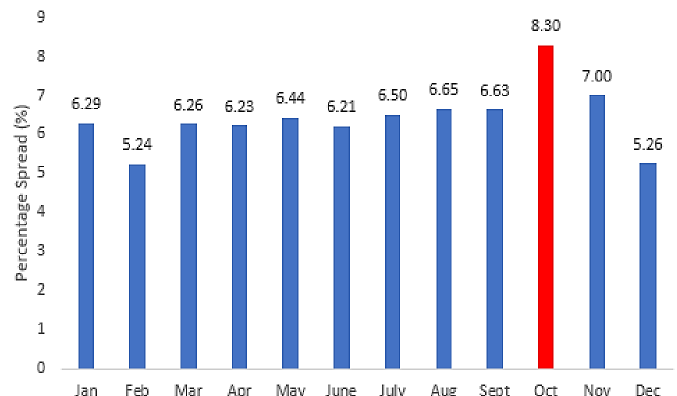
At the opening of September, the Dow Jones Industrial Average (DJIA) was within striking distance of a record while, in August, the NASDAQ hit all-time highs and the S&P 500 index broke the record for the longest U.S. bull market in history. This bull market run has over 3,500 days, with equities rising over 320% since it began on March 9, 2009!

It's a record few would or could have predicted when stocks struggled to find their footing after a 50% plunge during the 2008 financial crisis. Despite this impressive achievement, there are no shortage of bearish warnings as analysts debate the future. Yet many investors continue to believe there's plenty of gas left in the tank for equities.

While 2017 proved to be a very healthy and non-volatile year on Wall Street, volatility returned in 2018. The first quarter of the year reminded investors that volatility will *always* be a part of the markets and investing.

With stocks at all-time highs, history has shown us that the equity market may be in for a rough ride. Some driving factors in volatility's strong comeback in 2018 are: rising interest rates; inflation; midterm elections; geopolitical uncertainty; and global trade issues (including tariffs). Market observers noted that by April 2018, the S&P had moved at least one percent almost 40% of the time. That's the most moves of this percentage level since 2009.

Even with volatility back in action, the markets have advanced and been kind to investors. However, we know the fall season is when investors have historically experienced bumpy rides. A long-range study from 1928 to 2017 found that October and November are typically the months of the year with the biggest share of 1% day moves (up or down) in the S&P 500, with October having a decisive 1.3% lead over November.



The good news from this study is that when the S&P 500 had gains in August and September, it would rally through to the end of the fourth quarter for average 2% gain.

"Whenever the S&P 500 has been up in August and September, two months that are usually very challenging for stocks, the S&P 500 has risen in price 13 of 16 times, or 81% of the time, for the remainder of the year," said Sam Stovall, Chief Investment Strategist at CFRA.

However, investors are aware that no one can predict the future, and past performance is no assurance of any financial return. Volatility is always a part of investing so instead of being concerned by volatility, the best plan of action for volatile times is preparation. Most analysts are cautioning for a possible pullback or correction in equity prices, but not signaling a recession. One of the best analogies we have seen is that the forecast for equities looks sunny with a chance of rain.

FALL VOLATILITY

While most experts are saying it's very unlikely that the fall of 2018 will produce a crash in the equity markets, some of the most dramatic equity drops of all time have come during the fall season. Here are three notable instances.

1929

BLACK TUESDAY 1929

The stock market crash on October 29, 1929, marked the start of the Great Depression and sparked America's most famous bear market. The S&P 500 fell 86% in less than three years and did not regain its previous peak until 1954.

1987

BLACK MONDAY 1987

The S&P 500 lost almost 30% during 39 trading days in 1987. However, Monday, October 19, 1987, stands out because in one day, the DJIA lost 23%, the worst day since the Panic of 1914. This bear market was short (compared to others) and long-term investors were rewarded with an 845.2% return over the next 13 years.

2008

FINANCIAL CRISIS 2008

The DJIA fell 777.68 points. Up until this February 5, 2018, when the DJIA closed 1,175 points down, it was the largest point drop in history. This was predicated by major news like Lehman Brothers declaring bankruptcy and the Fed announcing bail-outs. The fourth quarter of 2008 also had additional large one-day points drops, including 678.91 on October 9th, 733.08 on October 15th, and 679.5 on December 1st.

BLACK TUESDAY

NEW YORK, TUESDAY, OCTOBER 29, 1929

THE STOCK MARKET CRASH OF 1929

The New York Times

STOCKS PLUNGE 508 POINTS, A DROP OF 22.6%; 604 MILLION VOLUME NEARLY DOUBLES RECORD

WORLDWIDE IMPACT

BROOKLYN DAILY EAGLE

WALL ST. IN PANIC AS STOCKS CRASH

Attempt Made to Kill Italy's Crown Prince

Hollywood Fire Destroys Films Worth Millions

High Duty Group Gave $700,000 to Coolidge Drive

Herald Tribune

Stocks plunge; finance chiefs in crisis ta

The Washington Post

Markets in Disarray as Lending Locks U

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HOW TO RIDE OUT VOLATILITY WITHOUT LOSING YOUR MIND

Markets rise and fall. This is part of the investment experience. Being prepared for any future circumstances that may occur can be helpful. Focusing on your personal investment goals can be key to long-term financial success. Sometimes, this can be easier said than done, especially with all the external noise investors receive. As we head into a quarter that can be historically unnerving for investors, let's recap key points that can help keep you grounded if we experience turbulent times.

TUNE OUT MEDIA MAGNIFICATION: One of the biggest challenges that investors face is how to tune out the magnification of financial issues by the media. Adhering to a long-term investment plan often requires taking the news with a grain of salt and putting the impromptu advice of others on the back burner. All too often emotion, not logic, influences our investing habits. So, let the first step in declaring your mental independence be a realization of how these influences, known as **Biases**, affect us.

It can be difficult to make rational investment decisions when the markets are fluctuating. During these times, it's wise to resist watching and reading news reports while obsessively watching portfolio performance. Sometimes, the more information you have, the more likely you are to make a decision that deviates from your long-term strategy.

AVOID THE HERD MENTALITY: A powerful influence to avoid is the **Herd Mentality**. With easy access to many news sources and media outlets, anyone can be easily influenced by potentially misleading information, abandon reason, and simply follow the crowd. Once you are aware of this pitfall, it's important to avoid it and remain focused on executing an investing strategy that is most appropriate for your situation. Sometimes the most difficult thing to do in investing is nothing at all. Nobel Laureate Daniel Kahneman, considered the father of behavioral economics, suggests that, ***"we would be better investors if we just made fewer decisions."***

THREE QUESTIONS TO ASK: In times of crisis, many people tend to overreact and sometimes don't make the best decisions. Should the markets experience unnerving fluctuations, we suggest you ask yourself three questions:

Have my financial timelines changed?
Have my financial goals changed?
Has my risk tolerance changed?

If you answered "YES" to any of these questions, then it's wise to discuss these changes with us. One of our primary responsibilities as your financial adviser is to consistently keep in touch with you and monitor your situation.

THINK WITH YOUR HEAD, NOT YOUR EMOTIONS: One of Sir John Templeton's "Rules for Investment Success" is, ***"Do not be fearful or negative too often."***

If we begin to experience market turbulence, it should serve as a reminder to reevaluate instead of panic. Revisiting your current financial situation and evaluating if your risk tolerance, goals, and needs are still congruent with your time horizon is a wise plan of action. We will do this at your next review, but if you would like to do this sooner, please call us.

SEEK THE HELP OF A PROFESSIONAL: One of our main goals is to make sure you are comfortable with your investment portfolio. Peaks and valleys have always been a part of financial markets. Even if your time horizons are long, you could see short-term movements in your portfolios during the fourth quarter of 2018. Rather than focusing on the turbulence, you will want to ensure your investment plan is centered around your personal goals and timelines. We are here to help you with this.

A good financial adviser should help make your financial planning journey easier. Our goal at HFS is to understand your specific goals and dreams and then offer direction and strategies to help get you there. While we cannot control financial markets or interest rates, we do keep a watchful eye on economic, tax and investment issues, continually monitoring your portfolio, and consistently communicating with you in a way that's simple, streamlined and easy to understand. One of our primary objectives is to take the emotions out of investing for clients. We can discuss your specific situation at your next review meeting or you can call to schedule an appointment anytime. As always, we appreciate the opportunity to work with you in addressing your financial matters.

HUGHES FINANCIAL SERVICES, LLC

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We offer our clients a wealth of comprehensive financial planning expertise in the following areas:

- retirement planning
- estate planning
- investment management
- risk management
- insurance
- education planning

The financial advisers at Hughes Financial Services hold a variety of professional designations and certifications and are well-versed in a number of financial disciplines. We proudly specialize in helping employees and retirees of local government and school systems with their retirement options. Our combined education and experience allows us to offer you independent financial advice and solutions that we are proud to provide.

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