Volatility

Following a full year of steady upward markets, volatility reared its ugly head.   And while the media reports that the drop in market points was “steepest loss ever” it’s a gross overstatement. The actual percentage variation was relatively small. This is just business as usual on Wall Street.

Our central message remains that if you have the appropriate asset allocation plan to meet your unique needs, then the best thing for you to do is stay the course. This too will pass, the world’s economy will continue to grow, and owning a globally diversified portfolio of stocks is the best way to profit from that wave.

In a way, the recent price movements is like taking a big bad tasting pill. It may not be pleasant at the time, but it’s good for you. For markets to work at all prices must continuously adjust in both directions.

Apparently a few hundred million of our closest friends are recalibrating their views of future profits, inflation and anticipated interest rate hikes. This process may take a while as investors digest new facts on the global economy.

There is no fundamental economic problem associated with this recent volatility.   It comes against a backdrop of global growth and great economic news. With wages and inflation creeping up the Federal Reserve and other central banks might increase interest rates. Indeed, they have telegraphed their intentions. It’s the cost of preventing runaway inflation. Higher interest rates and the end of easy money will increase the cost of capital for businesses. Additionally, higher interest rates will make fixed income more attractive to investors while at the same time tempering investor’s taste for risk. The invisible hand at work can be a messy process not subject to instant resolution.

We know that volatility introduces a certain amount of emotional stress. As always, we are monitoring your portfolios closely and looking for opportunities that present themselves. We are here for you and welcome your calls.