

Market Observations February 2018



RISK

A -8.5% loss in the six trading days ended February 5 more than offset all the prior year-to-date gains. This outcome most certainly was unwelcome but history suggests timing should have been the only surprise. The Dow Jones Industrial Average ("DJIA") provides context.

DJIA Investment Return	
2017	+28.1%
January 2018	+5.9%
122 Years	53% Daily Gains
DJIA Investment Risk	
2008	-31.9%
October 1987	-23.2%
122 Years	47% Daily Losses

In any event, awareness of and concern for investment risk now are elevated. Further analysis and a return to investment fundamentals can provide perspective.

Perspective

All investing comes with risk. Even investing in "safe" money market investments presents the risk of purchasing power loss due to inflation. Stock investing comes with risk as shown in **Table I** over the 122 year history of the DJIA. But no other traditional investment has achieved these longer-term average returns. Why a correction now and what lies ahead?

Some explanation may lie in **Chart I**. A bond market "correction" has been underway for some time. Higher interest rates can impact stock valuations adversely. A limited and orderly rise in interest rates from here likely will have a moderating not limiting impact on future stock market price gains. Recent higher growth for corporate earnings, now bolstered by tax legislation, should provide a base for future stock market gains.

Investing is with purpose. Investment risk is taken to earn a return sufficient to achieve desired goals. Some individual goals are shown in **Table II**. Falling short of any goal is the risk that matters most and that risk deserves greatest focus.

Investment Implications

To be concerned when investment outcomes have disappointed is to be human. To remain focused and disciplined is to accomplish investment goals over time.

- Be prudent by employing sound investment principles such as diversification.
- Be clear about your goals and aware of the shortfall risks in their pursuit.
- Be wary of pseudo investing; e.g., lottery tickets, Super Bowl pools, flipping houses, trading Bitcoin.

Table I

DOW JONES INDUSTRIAL AVERAGE				
Returns & Loss Frequencies				
PERIOD	Average Return	Loss Frequencies		
		<0%	<-5%	<-10%
1 DAY	+0.03%	47%	0.2%	0.0%
1 MONTH	+0.8%	39%	15%	5%
1 YEAR	+8.8%	32%	26%	21%
5 YEARS*	+8.9%	13%	6%	3%
10 YEARS*	+8.6%	6%	0.1%	0.0%

*Annualized

Chart I

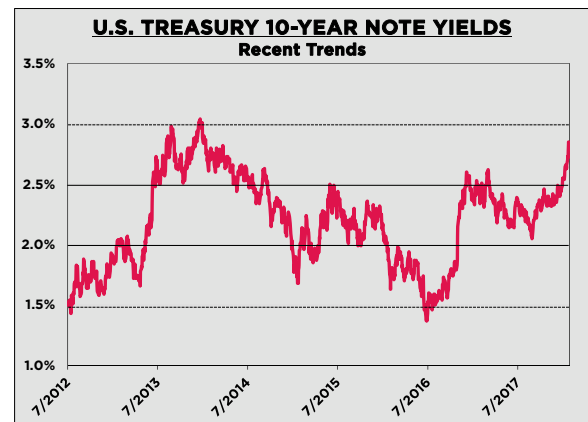


Table II

PURPOSEFUL INVESTING	
DESIRED GOAL	SHORTFALL RISK
DREAM HOUSE	SOMETHING DIFFERENT
PREFERRED COLLEGE	SOMEWHERE ELSE
RETIREMENT INCOME	LESS