



April 2018 Market Commentary

In our January commentary we predicted that equity market volatility would return in 2018 and, wow, were we correct! The S&P 500 achieved an all-time high in January and has entered a technical correction. Equity market swings of several percentage points have occurred since February and seem to be the new norm. While volatility doesn't equate to risk, I do want to touch on corrections and what they mean in terms of investments.

Historically, equity markets correct about once a year (a correction is traditionally defined as a reversal of the market valuation in the amount of 10% or greater). A correction is not to be confused with a bear market but rather a temporary pause in the upward trend of a bull market. We view corrections as healthy and necessary to facilitate continued upward momentum based on economic fundamentals and corporate earnings. We had not experienced a market correction of greater than 10% in nearly 2 full years until February. In fact, the market didn't pull back more than 3% in all of 2017 so a correction and/or pull back was overdue.

The last correction occurred between August 2015 and February 2016 where the S&P 500 contracted 15.13% over seven months. What was interesting though was many of the sectors rolled through their own correction that in many cases were more significant and deeper over a year long period. We believe this was equivalent of a major market correction that went relatively unnoticed and set the stage for the current bull market we are experiencing and adds a bit more perspective to the current environment.

S&P 500 Market Sector performance during 2015 to 2016:

Sector	Symbol	Performance
Energy	XLE	Corrected 51%
Materials	XLB	Corrected 30%
Financials	XLF	Corrected 24%
Real Estate	XLRE	Corrected 21%
Healthcare	XLV	Corrected 19%
Industrials	XLI	Corrected 18%
Consumer Discretionary	XLY	Corrected 17%
Utilities	XLU	Corrected 17%
Technology	XLK	Corrected 15%
Consumer Staples	XLP	Corrected 12%

You will note the different sector performances during this period; however, I specifically want to point out Consumer Staples as this demonstrates why we largely stick to this sector with our individual stocks as defensive investments tend to do better during market down turns.

With all this technical talk, let me put a fine point on what I am trying to say. Equity market corrections are normal and necessary for a healthy investing environment. We do not believe the current atmosphere to be the end of the bull market but just an overdue correction that will enable positive returns for 2018.

Tom