LEGACY WEALTH ADVISORS

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Market Correction In Process

Despite continued improvement in GDP growth, falling unemployment, surprisingly strong new job growth and stable earnings, markets have struggled to maintain their momentum. The NASDAQ is now flat for the year, while the S&P 500, Dow 30 and Russell 2000 are all down between 1.5-3.0%. Large company stocks are all down between 8.5% and 10% from the 2018 highs, and the small-cap Russell 2000 is down about 5.5%. Why the disconnect?

It's tempting to ascribe the recent weakness to concerns about the massive omnibus spending bill on the country's balance sheet, the emergence of a potential trade war with China, the never-ending stalemate over our immigration policy, the Fed's newfound fondness for tighter monetary policy, or concerning revelations about user privacy at the major social media and internet behemoths sparking new cries for their regulation as utilities. But we feel that these are merely excuses, rather than actual causes for investors' current anxieties. It's simpler than that.

After what feels like an exceedingly long period of markets focusing almost exclusively on the "reward" side of the risk-and-reward market dynamic with little thought given to the "risk" side of things, investors across most major asset classes are finally starting to acknowledge the latter. And from our perspective that's a healthy development.

We have found over the years that as markets approach a peak (if not the peak), investors (broadly speaking) become too complacent about risk, too incurious about the actual source and composition of company earnings, too generous with the valuations they award for those earnings, and too complacent about the potential outcomes of global geopolitical entanglements. As a result, there are always subsequent periods of readjustment to reality that "no one could have seen coming". In reality, the catalysts, as well as the signs, were always there (in hindsight); whether ignored, diminished or acted upon. The more vigilant, prepared investors weather the inevitable downturn more gracefully, and are better prepared for the recovery.

We foreshadowed the current market correction last fall in our *Legacy Outlook - Volume V - 2017 - A Cautionary Tale*. We noted that the economic cycle was beginning to peak, we were very late in the market cycle, valuations were significantly stretched, and that investors were far too complacent about risk. We highlighted a greater emphasis on risk control and diversification along with our mildly cautious view on the overall equity markets. As we wrote in September:

"We suggest the odds are much higher for a significant downturn over the next 12 months than of a meaningful rally. Our stance remains largely fully invested, but we are very watchful for changes that signal an increasing danger. …. We remain on guard."

The next several weeks and months will reveal whether this is merely the 'pause that refreshes', or something more concerning. We still believe that this is not **the** top, but more likely **a** top, in a market that had gotten ahead of itself. The current correction is a healthy, necessary event, and a wakeup call for investors to verify their current risk and volatility exposure levels. If you have additional questions or concerns, or would like additional details, please let us know.