LEGACY
WEALTH ADVISORS

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Market Corrections are Healthy

Market commentators are variously ascribing the current market sell-off to fears of rising interest rates and inflation, a tighter Federal Reserve policy, a slowing global economy due to tit-for-tat tariff moves between the U.S and China, or tensions with Saudi Arabia over the alleged assassination of Jamal Khashoggi. We think the answer is much simpler than that. Markets are, and should be, volatile by nature. Buyers and sellers, collectively, only rarely, and temporarily, agree with what the ‘’clearing price” should be for an asset, or collections of assets. Otherwise prices would remain relatively flat, with little variation, for long periods of time. Any, or all of the factors listed above (plus a myriad of other factors) can guide investors' decisions on when to buy or sell, and at what price. Any significant collective disagreement on which factors are dominant at the given moment logically leads to market volatility.

Last February, when the markets had their first 10%+ correction for the year we published an update entitled ***Welcome Back Volatility*** [link here] saying: “*It looks like we've finally gotten the first installment of the shake-out in the markets that we've been expecting for quite some time. The long period of relative calm ended last week over fears around increasing rates and inflationary pressures (higher wages) dampening the current economic recovery*.” Sound Familiar?

As markets posted a new, lesser decline in March and April, we wrote in our next update, ***Market Correction In Process*** [link here] ; *“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.”* In Fact, the S&P 500 went on to rise over 15% from those April lows with periodic lesser corrections along the way.

As the chart of the S&P 500 below reveals, we have had four significant corrections since 2007, including the monster bear market resulting from “*The Great Recession*” (2007-2009) that resulted in a 57% decline at the intra-day lows. Each was preceded by a period of price stagnation, followed by an initial sell-off and subsequent attempts to rally, some more successful than others (Blue Ovals). The second two corrections (>10%) resulted in classic 12-15% declines in an ongoing bull market. Each had a period of basing and recovery (Red Ovals) before resuming their ascent. It's interesting to note that the current sell-off still looks like the period between 2012 and 2015, where markets merely consolidated, rather than corrected.

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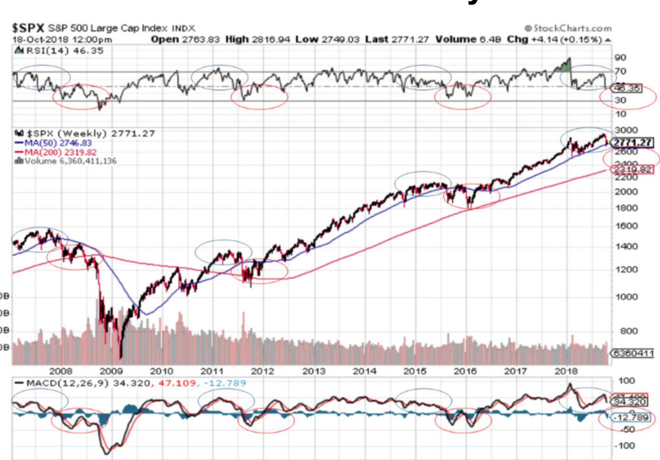

As we correctly opined in April; “The next several weeks and months will reveal whether this is merely the ‘pause that refreshes', or something more concerning. We still believe that this is not **the** top, but more likely **a** top, in a market that had gotten ahead of itself. The current correction is a healthy, necessary event, and a wakeup call for investors to verify their current risk and volatility exposure levels.”

We expect the current bounce-back rally to fail as investors caught in the sell-off trim positions, followed by a more durable attempt to rally into year-end. Where appropriate, we recommend reducing risk exposure to recommended levels, and to evaluate and reduce weak, losing positions as we monitor conditions.

Please do not hesitate to contact us should you have any immediate concerns or questions.

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