LEGACY WEALTH ADVISORS

February 6, 2018

Welcome Back Volatility

The first three days of February have given us the first shake-out in the markets that we've been expecting for quite some time *(see September Legacy View: link).* The long period of relative calm ended last week over fears around increasing rates and inflationary pres-sures (higher wages) dampening the current economic recovery. The Dow had its largest single day **point** decline on record (although it didn't even break into the top 20 on a percentage loss basis) and for the first time in recent memory, the news out of Washington has taken a back seat to financial markets. Contrary to what is being reported on the media, the sell-off is neither record setting nor a cause for panic.

Our immediate outlook remains cautiously optimistic and the underlying fundamentals of the global economy appear to be on stable footing. In January, the International Monetary Fund upgraded its forecast for 2018 global growth to 3.9%, the fastest pace in seven years and the synchronized global expansion remained the dominant theme in financial markets fueled in part by healthy earnings and continued accommodative monetary policies abroad. We view the last few days as an overdue reset and repricing of risk.

While we can't predict the length and magnitude of the current sell-off, our portfolios are well positioned to deal with higher levels of volatility and an increasing trend in interest rates. We're cognizant the US is entering a delicate cycle where stronger earnings usually engender tighter monetary policy and credit conditions, and we'll continue to monitor current events to ensure we are managing risk across our client accounts.

With increased market volatility and lower stock correlations, our active higher-quality manager bias will be entering a cycle where stock selection makes a positive difference. Within our respective fixed income allocations, we have reduced longer maturity, more interest rate sensitive positioning, and have been tactically increasing our exposure to income producing assets (which are less sensitive to in-creasing rates) to offset the headwinds traditional fixed income managers have in this environment. Absent much higher inflation rates, (currently below 2%) bonds should stabilize near current levels.

Drawdowns Can Have Happy Endings

JANUARY MOMENTUM CAN LEAD TO CONTINUED GAINS

A Big January Is A Great Sign For More Strength

Year	S&P 500	January Return	Rest of Year	Full Year	Intrayear Pullback
1951	21.66	6.0%	9.7%	16.3%	-8.1%
1954	26.08	5.1%	38.0%	45.0%	-4.4%
1961	61.78	6.3%	15.8%	23.1%	-4.4%
1967	86.61	7.8%	11.4%	20.1%	-6.6%
1975	76.98	12.3%	17.2%	31.5%	-14.1%
1976	100.86	11.8%	6.5%	19.1%	-8.4%
1980	115.12	6.7%	17.9%	25.8%	-17.1%
1985	179.63	7.4%	17.6%	26.3%	-7.7%
1987	274.08	13.2%	-9.9%	2.0%	-33.5%
1989	297.47	7.1%	18.8%	27.3%	-7.6%
1997	786.16	6.1%	23.4%	31.0%	-10.8%
2013	1498.11	5.0%	23.4%	29.6%	-5.8%
2018	2822.43	5.6%	?	?	?
	Average		15.8%	24.8%	-10.7%
	Median		17.4%	26.1%	-7.9%
	% Higher		91.7%	100.0%	

Source: LPL Research, FactSet 1/30/18

Recent Benchmark Returns

Index	Jan 2018	Feb MTD *(3 trading days)*	YTD	2017
DOW	5.88	-6.89	-1.01	28.04
S&P500	5.73	-6.17	-0.44	21.83
Russell 2000	2.61	-5.32	-2.71	14.65
MSCI EAFE	5.02	-3.02	2.00	25.03
MSCI Emerging Markets	8.33	-3.59	4.74	37.28
Intermediate US Bonds	-0.88	-0.03	-0.91	2.14

Source: Morningstar as of February 2/5/18