Droms Strauss Wealth Management
Special Market Communiqué

January 7, 2016

"It's like *déjà vu* all over again!"
The late, great Yogi Berra

Watching the market the first four trading days of 2016 has reminded us of the last time we sent a "Special Market Communique" to our friends and clients on August 25th of last year. The Dow Jones Industrial Average had dropped by 5.8% (to 16,460 from 17,477) during the prior week and then dropped another 589 points (-3.6%) on Monday, closing on Monday at 15,871, for a drop of 9.4% in six trading days. At the time, we made the following observation:

> *Much of Monday's sharp downturn was precipitated by the continued rout of the Chinese stock market: the Shanghai Stock Index was down 12% last week, fell another 8.5% yesterday and lost an additional 7.6% today. Plunging stock values and concerns over the impact of slowing economic growth in China on the rest of the world appear to present the biggest concern pushing global equities down. . . . The second biggest concern is the potential increase in interest rates in the U.S at the next Fed meeting on September 16-17. Even though a rate increase seems much less certain than it did just a few weeks ago, and the raise, if any, will almost certainly be no more than 0.25% following six years of zero interest rates, investors are concerned about the impact of even a small rate increase on economic growth. Finally, the continuing strengthening of the U.S. dollar makes U.S. goods more expensive overseas and may create a significant drag on the U.S. economy.*

Our August notes sound vaguely familiar today. The current volatility appears to be driven mainly by concerns related to the stock market plunge and slower economic growth in China. Not many analysts are blaming the Fed's 25 basis point interest rate increase, but of course, this concern did come to pass last month. Concerns about the strong dollar persist. To the concerns from last summer, we can also add the collapse in oil prices, which although good for consumers is crushing energy stocks, and the new issue of North Korea's claim to have exploded a hydrogen bomb. So we once again are suffering through a period of extreme volatility. On the bright or perhaps less dim side, the downturn is not nearly as severe as it was last August. The Dow closed at 17,425 on New Year's Eve 2015 and has declined to 16,514, a drop of 911 points, or 5.2% since the close last year. The S&P 500 and the tech-heavy NASDAQ have seen similar declines over this period (4.9% for the S&P and 6.4 % for the NASDAQ). A further small ray of sunshine

in this otherwise overcast picture is that all three indexes, after suffering extreme downdrafts through the close of the market today, are still higher than they were back on August 25: DJIA at 16,514 vs. 15,871, S&P 500 at 1,943 vs. 1,893 and NASDAQ at 4,689 vs. 4,526.

The most important question, of course, is what to do now. During these very difficult market periods, it is more important than ever for all of us to sit back and digest what happened and what the implications are for our investment strategy going forward. In our final reach back to last August, we bring up Jason Zweig's Wall Street Journal article concerning the August correction where he observed that "neither you – nor anyone else – knows what will happen next" and that "diversification, patience and, above all, self-knowledge are your best weapons against this irreducible uncertainty."

Zweig's advice coincides with the investment approach we have been applying for our investors for the past 21 years. Our answer to dealing with market volatility does not change from year to year or month to month: asset allocation is the key to long-term investment success. We do not try to time the market by doing short-term in and out trading based on predictions of where the market is going next. We have seen enough data and been at this long enough that we are certain that short-term market timing is much more likely to lead to long-term losses than to actually protect a portfolio. All of the data we have seen indicate that successful short-term trading requires a predictive accuracy of at least 70 percent, and that level of accuracy is just not likely. The recent increase in volatility makes this type of approach even more difficult.

After this most difficult kick-off to the year, it is useful to consider that, over the long haul, the stock market reflects the future of the economy. Looking at current data, we can see that employment continues to improve, inflation remains near zero, interest rates are still low following the very modest Fed increase last month, and the economy is growing, albeit more slowly than anyone would like, but growing. The way we look at the world of investing is to try to assess where the economy and the market will be two to three years out and we expect that we will see positive returns over the next two to three years. Hence we believe it makes good sense to remain invested in equities.

In todays' age of 24/7 global news coverage it is hard to shut out the noise and hype about "*today's drop*" in the financial markets. We must each remember that we should be focused on the long-term. If you have any questions please do not hesitate to call us.

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