Dear Client:

The stock market has been declining further this week. You've surely noticed, and you might be wondering what you should be doing about it.

As of Friday's close, the S&P 500 stock index is 18 percent below its high, which was reached three months ago. The Federal Reserve raised interest rates again this week, a government shutdown looks likely and Brexit is again in the news. It's easy to understand why investors are unhappy.

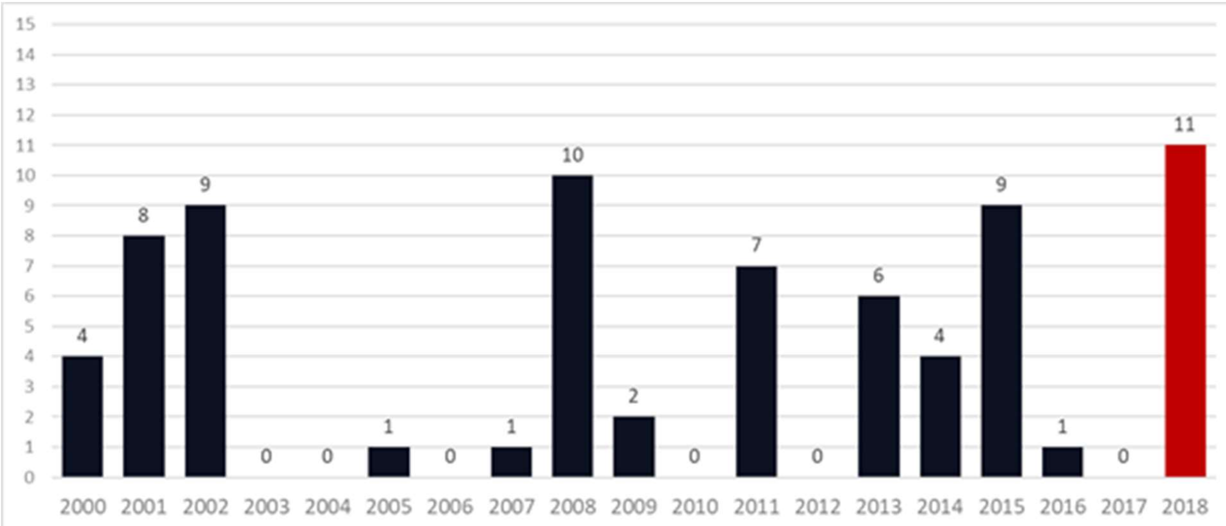
Small wonder that investor sentiment is turning negative. Each week, the American Association of Individual Investors conducts a survey to gauge investor sentiment, and in the Dec. 12 survey, the number of investors who describe their attitude as negative jumped from 30 to 49 percent.

But there continues to be positive economic news:

- Corporations are continuing to report growth in their profits. In fact, the 500 companies comprising the S&P 500 stock index have collectively paid more than $400 billion in dividends so far this year, and 302 of them have actually increased their dividends or started paying them for the first time.
- Surveys of corporate purchasing managers still show that companies are planning to spend and invest.
- The unemployment rate remains at historically low levels.
- Wages are continuing to rise.
- Inflation and interest rates remain low.

Despite all of this, the financial markets are experiencing losses this year. Indeed, as the chart below shows, 11 of 15 major asset classes have lost money this year — the most since 2000. This is highly unusual.

Number of broad asset classes with negative returns



Source: Morningstar Direct. The chart tracks the calendar year performance of 15 asset classes: Cash, Intermediate Bonds, Long-Term Bonds, Corporate Bonds, Mortgage Bonds, Non-U.S. Bonds, Large Value, Large Growth, Mid Value, Mid Growth, Small Value, Small Growth, European Equity, Pacific Equity and Emerging Markets Equity.

Even though a diversified portfolio like yours hasn't completely insulated you against losses this year, you're likely still far better off than if you had taken gambles by owning just a handful of individual stocks. Remember when the media kept talking about the so-called FAANG stocks? Facebook, Apple, Amazon, Netflix and Google were rising for much of the year — until October, that is. Since then:

- Facebook's stock price has fallen 24 percent.
- Apple is down 33 percent.
- Amazon is down 31 percent.
- Netflix is down 34 percent.
- Google is down 18 percent.

Seeking to avoid such large losses is precisely why we recommend that you own a highly diversified portfolio.

It's also important to put this year's volatility into proper context. Since 1960, according to data from S&P Dow Jones, the S&P 500 has had daily swings of 1 percent or more an average of 54 days per year. This year we've experienced such volatility on only 62 days. So, this year has been … routine. Indeed, volatility is an inherent part of investing.

So, here's the conclusion. If you invested for the purpose of achieving long-term goals, if your goals haven't changed, and if your family circumstances (job, health, marital status, attitude about risk or need for income) haven't changed, then you can ignore what's been recently occurring in the investment world.

But does this message apply to you if you're retired?

If you’re saving for goals that are years or decades away, it’s easy to dismiss recent market volatility and this year’s disappointing returns. After all, by the time you retire, 2018 will be a distant memory. But the situation can feel quite different if you are already retired (or soon will be) and are taking (or soon will take) income from your account. It can be unsettling to withdraw money while watching your account decline in value.

So, here’s our advice if you are taking income from your portfolio:

First, if you’re concerned about the amount you’re withdrawing annually, talk with your planner. They know how much you’re withdrawing and can confirm for you whether or not you’re taking more than you should.

Second, your planner has already confirmed that your portfolio is properly allocated so that you’re not taking excessive risk. But if you have any concerns, give them a call or send an email.

Third, make sure you have ample cash in the bank — enough to cover several months of living expenses. By doing so, you can reduce the amount you’re withdrawing from your portfolio for a while if you wish, without disrupting your lifestyle. Your planner can help you determine how much cash to hold (because, with interest rates so low, it’s as important that you not keep too much there!).

Finally, take a look at your monthly expenses. Perhaps there are a few costs you can reduce, defer or eliminate. This can allow you to reduce the amount you withdraw from your portfolio so that your money lasts longer. Your planner can help you with this, too, including a review of insurance expenses you might be able to improve.

Please share this information with members of your family who are retired and might be worried about recent market events.

You can be sure that your planner will continue taking care of your needs. If you have questions, please reach out to your planner. And despite the markets, please enjoy the holiday festivities. Although the financial markets have been delivering coal, we wish you great health and happiness as we approach the new year!

Regards!

Ric Edelman
Co-founder and Chairman, Financial Education and Client Experience