Dear Client:

It’s *baa-ack!*

Market volatility, that is. Although daily fluctuation in the stock market had been small for quite some time — the average change in prices from 2016 to 2017 was only 0.4 percent — we’re again seeing larger swings in value.

What does it mean? Confusion, frankly. Like drivers traveling on an empty highway, a clear road ahead lets you easily point forward with little need for course corrections. But when traffic is heavy, with detour signs and flashing lights, drivers tend to change lanes more often, seeking the best path.

And that’s what we’ve got these days in the financial markets: a crowded and confusing situation. From trade wars and tariffs to interest rate hikes, recession fears, election jitters and even climate change — well, it’s easy to see why investors are tempted to zig one day and zag the next. Everyone seems unsure about what to do.

It’s understandable to be concerned. Last year was the worst year for the stock market since 2008, and it can be disappointing and maybe even scary to watch your portfolio decline in value. (I don’t like it, either!)

But panic serves no useful purpose. Neither does making any unwarranted changes. That point was demonstrated by how well the markets have performed this year. Pity the hapless devotee addicted to watching CNBC all day long, getting pummeled by minute-to-minute market commentary and watching helplessly as stock prices fell virtually nonstop from Oct. 1, 2018, through the end of the year. Indeed, during those three months, the S&P 500 lost 13.5 percent. Commentators in December and January warned that 2019 would be much the same — no wonder many people sold their investments and fled to cash!

Bad move. Bad timing. From Jan. 1 through May 31 of this year, the S&P 500 gained 10.7 percent. The Dow Jones Industrial Average grew 7.5 percent, and foreign markets, represented by the EAFE Index, rose 7.6 percent. Pity those who allowed their fears to cause them to do the wrong thing at the wrong time!

That’s why it’s important that we steel ourselves against today’s turmoil. Yes, the problems we face are real. But we’ve faced many others, and in the end, life marches on. Here are some examples:

- Remember Brexit? When the United Kingdom voted to leave the European Union on June 23, 2016, many "experts" predicted the vote would lead to a global financial downturn. Indeed, the S&P 500 fell 5 percent in the first few days — but a year later, the S&P 500 was up 21 percent.
- Remember when Greece defaulted on its debt in 2010? The entire European economy was supposed to crater as a result, and the S&P 500 did fall 16 percent in 10 weeks. But a year later, the S&P 500 was up 31 percent.

The following chart, adapted from Chapter 37 of my book, *The Truth About Money*, shows that crises are not new to us — and although stock prices tend to fall on the news, prices have quickly recovered. (Of course, I must point out that past performance does not guarantee future results.)

Stocks During and After a Crisis

Crisis	Change in S&P 500	Next Six Months	Next Year
Korean War	-15% in 5 weeks	+ 31%	+ 36%
Sputnik	-10% in 3 weeks	+ 8%	+ 30%
Steel price rollback	-20% in 8 weeks	+ 11%	+ 24%
Liquidity crisis	-12% in 4 weeks	+ 15%	+ 42%
Arab oil embargo	-17% in 9 weeks	- 1%	- 28%
Nixon resignation	-19% in 5 weeks	+ 30%	+ 27%
Hunt Silver Crisis	-12% in 4 weeks	+ 26%	+ 29%
Crash of '87	-26% in 3 weeks	+ 7%	+ 16%
Gulf War	-12% in 3 weeks	+ 11%	+ 25%
September 11th	-12% in 2 weeks	+ 7%	- 17%
Enron	-5% in 9 weeks	- 6%	- 17%
Tsunami in Japan	-4% in 4 weeks	- 1%	+ 7%
Hurricane Katrina	-2% in 6 weeks	+ 7%	+ 10%
S&P Downgrades Greece Debt to Junk	-16% in 10 weeks	+ 24%	+ 31%
S&P Downgrades US From AAA to AA+	-18% in 10 weeks	+ 29%	+ 32%
Chinese Stock Market Crash	-12% in 5 weeks	+ 5%	+ 16%
Chinese Stock Market Crash Cont.	-12 % in 6 weeks	+ 20%	+ 27%
Inflationary and Interest Rate Hike Concerns	-10% in 2 weeks	+ 11%	+ 5%
Trade War and Interest Rate Concerns	-10% in 4 weeks	+ 9%	tbd
Average	**-13%**	**+ 13%**	**+ 16%**

Sources: Ibbotson and Associates and Bloomberg

And it's not just that prices gyrate during and after crises. They gyrate pretty much all the time — even when life is quiet.

The following chart, also adapted from Chapter 37, demonstrates this. It shows that the average difference between the stock market's highest and lowest points during a year is an astonishing 23 percent on average.

Annual Swing in Value of the S&P 500

1940	34%	1964	13%	1988	15%	2012	15%
1941	25%	1965	13%	1989	26%	2013	27%
1942	27%	1966	24%	1990	22%	2014	20%
1943	24%	1967	19%	1991	28%	2015	14%
1944	14%	1968	21%	1992	11%	2016	24%
1945	30%	1969	17%	1993	9%	2017	19%
1946	30%	1970	29%	1994	9%	2018	25%
1947	16%	1971	15%	1995	30%		
1948	21%	1972	16%	1996	24%		
1949	21%	1973	26%	1997	28%		
1950	20%	1974	45%	1998	29%		
1951	14%	1975	30%	1999	19%		
1952	14%	1976	17%	2000	18%		
1953	16%	1977	17%	2001	34%		
1954	38%	1978	21%	2002	40%		
1955	29%	1979	15%	2003	32%		
1956	14%	1980	36%	2004	13%		
1957	23%	1981	20%	2005	11%		
1958	32%	1982	34%	2006	16%		
1959	12%	1983	21%	2007	13%		
1960	14%	1984	14%	2008	57%		
1961	23%	1985	26%	2009	48%		
1962	30%	1986	21%	2010	23%		
1963	18%	1987	39%	2011	24%		

Avg: 23%

Sources: Morningstar and Bloomberg

This daily gyration is inconsequential over the long term, of course — and that's what we need to remember.

It's a relief, frankly. You can ignore the headlines about the Federal Reserve, the tariffs, Brexit and all the rest. Instead, know that you have a solid long-term plan, and that today's headlines won't interfere with your ability to achieve your goals.

And that’s the point, really: Your portfolio has been designed based on your goals. So, instead of looking at the markets (which you can’t control), focus on your goals (which you can control). Have your goals changed? If they haven’t, you can confidently continue doing exactly what you’re doing.

But perhaps your circumstances or goals have changed recently. For instance, a relocation due to a job change might have caused you to rethink how long you’ll work until retirement. Or perhaps a daughter has announced her engagement — meaning there’s a wedding to pay for. Life is changing all the time — births, deaths, health changes, charitable inclinations, you name it.

So, if your situation has changed — or if time has simply converted your long-term goals into short-term goals — maybe it’s time to review your strategy! That could make it a perfect time to contact your advisor.

Now Is a Great Opportunity to Help Keep Your Finances Safe

You can’t change stock market prices. But you can make sure your money is secure in other ways. Here are six steps you can take now to help make sure your financial plan remains intact:

1. Check your credit report. Look for fraudulent activity or incorrect information. If you spot an unusual item, contact the credit reporting agency.
2. Use a different password for each online site you visit and be sure to update your passwords regularly. That way, thieves who steal one password won’t be able to access your other accounts.
3. If it’s been more than two years, review your insurance with your advisor, including these policies:
    a. Disability income insurance: During your working years, your income is your most important asset. This insurance provides you with income if you can’t work due to illness or injury.
    b. Life insurance: If anyone is financially dependent on you, you want to make sure they’ll be financially cared for in the event you pass away sooner than expected. Let us help you make sure you don’t spend money on expensive or unnecessary coverage.
    c. Long-term care (LTC) insurance: 70 percent of those 65+ will need care at some point, and the average cost of a nursing home is almost $100,000 per year. LTC insurance not only protects your money, but it protects your children too. (Go ahead and ask them: Would they sacrifice their career and their savings to make sure you’re getting the care you need? I bet they would, and that means you may need to buy LTC insurance to protect them from having to do so.).

    d. Umbrella liability insurance: This policy provides you with coverage in excess of what you get from your homeowners and auto policies. For just a few hundred dollars per year, you can obtain millions of dollars in protection. It's often a smart idea.

4. Who did you name as your beneficiaries on your life insurance, individual retirement account (IRA), annuities and retirement accounts at work? Chances are, you don't remember! So, go look at the paperwork — and see if you like what you wrote. You might be surprised to discover that you've omitted two of your most recent grandchildren or named a charity you no longer favor. Update your beneficiary designations now!
5. Ask your advisor: Should you refinance your mortgage? Interest rates are sharply lower than they were just six months ago. If you can reduce your mortgage rate by 0.75 percent or more, you might be able to cut your mortgage payment by hundreds of dollars per month. Deciding whether to refinance depends on many factors, including how long you plan to own the house, the cost of the transaction, and whether you can itemize the mortgage interest on your tax return. Talk with your planner to see if this is worthwhile — while rates remain low!
6. If you're not already doing so, maximize the contributions to your workplace retirement plan and IRA.

For advice and guidance on any of these issues, and any other aspect of your personal finances, contact your advisor. You can be sure that the advice you're receiving from us is in your best interests.

Speaking of best interests …

… New SEC Regulation

The U.S. Securities and Exchange Commission recently issued a new regulation. Weighing in at 1,440 pages, it includes Regulation Best Interest. Reg BI is designed to protect investors who work with broker-dealers and investment advisors who do not serve their clients' best interests.

Our firm provided comments to the SEC and met with SEC staff while the regulation was being drafted. Sadly, we're disappointed in the result.

While we applaud the SEC's desire to protect investors, we are concerned about two elements of the rule. First, it doesn't go far enough: It fails to define key terms (what does "best interests" mean, anyway?), and there's no enforcement process built into the rule.

The worst part is that the rule does not require brokers and advisors who are licensed with brokerage firms to actually act in their clients' best interests. It only requires that they "disclose" their conflicts of interest. This is very worrisome, because it will allow brokers to claim, "I comply with Regulation Best

Interest," while not actually acting in your best interests. It is Orwellian doublespeak, and is certain to leave consumers confused and, in some cases, downright misled.

The good news is that, as our client, you don't have to worry about this. Here at Edelman Financial Engines, we act as a fiduciary — meaning we truly do serve your best interests. So, the new rule won't change the advice we provide you, modify the investment recommendations you receive or reduce the services you receive.

For more than 30 years, our award-winning organization has placed your best interests first. That's the way it always was. It's the way it is. And it's the way it'll always be.

Thank you for the privilege of serving you. We look forward to doing so for many years to come.

Regards!

Ric Edelman
Co-founder

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