Strategic Insights
Feb 2018

Not Pleasant, But Normal

This past Sunday morning I ran a half-marathon. San Francisco being a hilly city, the elevation map looked like chart 1.

As you can see, the pattern was quite favorable, with the finish line ending at lower elevation than the start. We had ups and downs, but overall enjoyed a net advantage.

Does this mean I didn't mind running up hills because I knew the course on average was declining? Heck no. The hills were tough. Sure, I knew I'd have them, and I knew I'd get through them. And maybe the genetically-favored leggy front-runners appreciated the challenge. But for me they were no cakewalk. It was during the uphills that I questioned myself for not staying home with a plate of French toast. Of course, after I finished the race, I was better off, thankful for participating, and ready for the next one.



CHART 1:
San Francisco Half-Marathon Elevation Chart

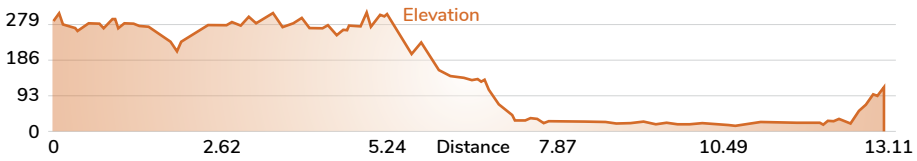
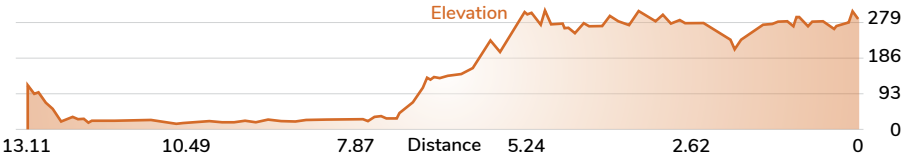


CHART 2:
San Francisco Half-Marathon Elevation Chart (Reversed)



In chart 2, I have flipped the chart to create the equivalent S&P Index visual (a downhill average being better for races, a higher one better for markets).

To continue with the analogy, the path itself is uneven, but if you can suffer through the bumps you will end up in a more favorable situation. Why put ourselves through this at all? Because there is an opportunity cost to doing nothing. To reframe our choices, they are:

1) Opt-out (i.e., stay in bed/stay in cash). Or:

2) Deal with the discomfort, knowing that you have prepared well and that ups/downs are part of the cycle.

One reason volatility bothers us is because we fear that the decline means something. We worry that it has not only eroded our portfolio value today, but more significantly that it portends that something fundamental has changed and more unpleasantness is ahead.

Sometimes, declines do signal reasons to be more cautious. But does this particular decline signal such a reason?

At this point, not likely. Q4 earnings have been healthy, the outlook for profits in 2018 remains positive, and the tax reform (whatever your opinion of its social/distribution aspects) will likely boost profits in the intermediate-term.

A decline of 5% or more happens on average about 3 times a year. Declines of 10% or more occur annually. So we are well within normal market movements.

> "There is an opportunity cost to doing nothing."

Size of Decline	Average Frequency[1]	Average Length[2]	Last Occurrence
-5% or more	About 3 times a year	47 days	June 2016
-10% or more	About once a year	115 days	February 2016
-15% or more	About once every 2 years	216 days	October 2011
-20% or more	About once every 3¾ years	338 days	March 2009

[1] Assumes 50% recovery of lost value [2] Measures high to market low



Cash allocation is important; if you have short- and intermediate-term cash needs, those funds should be liquid and not in equities. But for long-term savings, it's best to maintain your course and see it through.

—Adrianne Yamaki, CFP®

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STRATEGIC WEALTH CAPITAL

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