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VAHANIAN & ASSOCIATES Financial Planning Inc.

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Dear Friends and Financial Advisory Clients:

At the start of 2018 the U.S. investment environment was extremely upbeat. First, we were coming off a strong 12-month chapter for financial markets. But, as importantly there was great optimism based upon a strengthening economy, robust earnings, global growth, new tax cuts and increasing forward profit projections for the coming year. Naturally, the mood was bright.

So, here we are, three months later, and the "mood" has changed significantly. And it is here that we must remember in the short term, markets are impacted more by how we feel and less by underlying fundamentals. That is why we often witness sudden stock price gyrations, up or down, over just days and sometimes weeks, despite the fact that fundamentals may not have really changed.

Since late January, most domestic indices, including the S&P500, have corrected over 10 percent. Such declines happen for different reasons. But to put things in perspective, since 1980 we have had 36 such corrections – nearly one per year. Yes, like it or not, corrections are part of what happens in markets. Sometimes they occur when enthusiasm gets overdone and markets get ahead of their fundamentals. On other occasions - particularly in what is a generally strong economic environment - the fall comes based upon short term events that spark concerns that change both the "mood" as well as hope for what is coming next.

In this context, as we look back upon the optimistic vibe at the start of this year, despite all of the positive economic tailwinds currently in place, any good news of tax breaks and a strong economy are not currently making headlines. Instead, we have increasing geopolitical tensions and, above all, concerns of a trade war between the U.S. and multiple trading partners including China. It is here where it is easy to see why markets have been in decline, because nobody wins a trade war. The fear of one is key to what is currently depressing prices.

But let's be very clear. We are not in a trade war. At least not yet. Right now, various world leaders are doing a fair amount of sabre rattling. So, on the short term, public threats and newly declared tariffs are rattling market confidence. But with an understanding that nobody wins such battles, it is just as likely that behind the scenes, face saving political resolutions will follow. And with such a development, markets and investors will breath a sigh of relief and put their attention back on the positive.

Will such a constructive outcome be what follows? That is yet to be determined. Indeed, the situation could become more serious. But at this point, while a common market correction or short-term mood swing certainly merits scrutiny and monitoring, it does not necessarily mean that a change in one's long term investment approach needs to be made.

Of course, each one of you that counts on our firm to personally support you are welcome to touch base at any time. If you have questions, we are always eager to compare notes and address any questions you may have.

Best Wishes,

Jeffrey C. Vahanian, CFP®
President

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