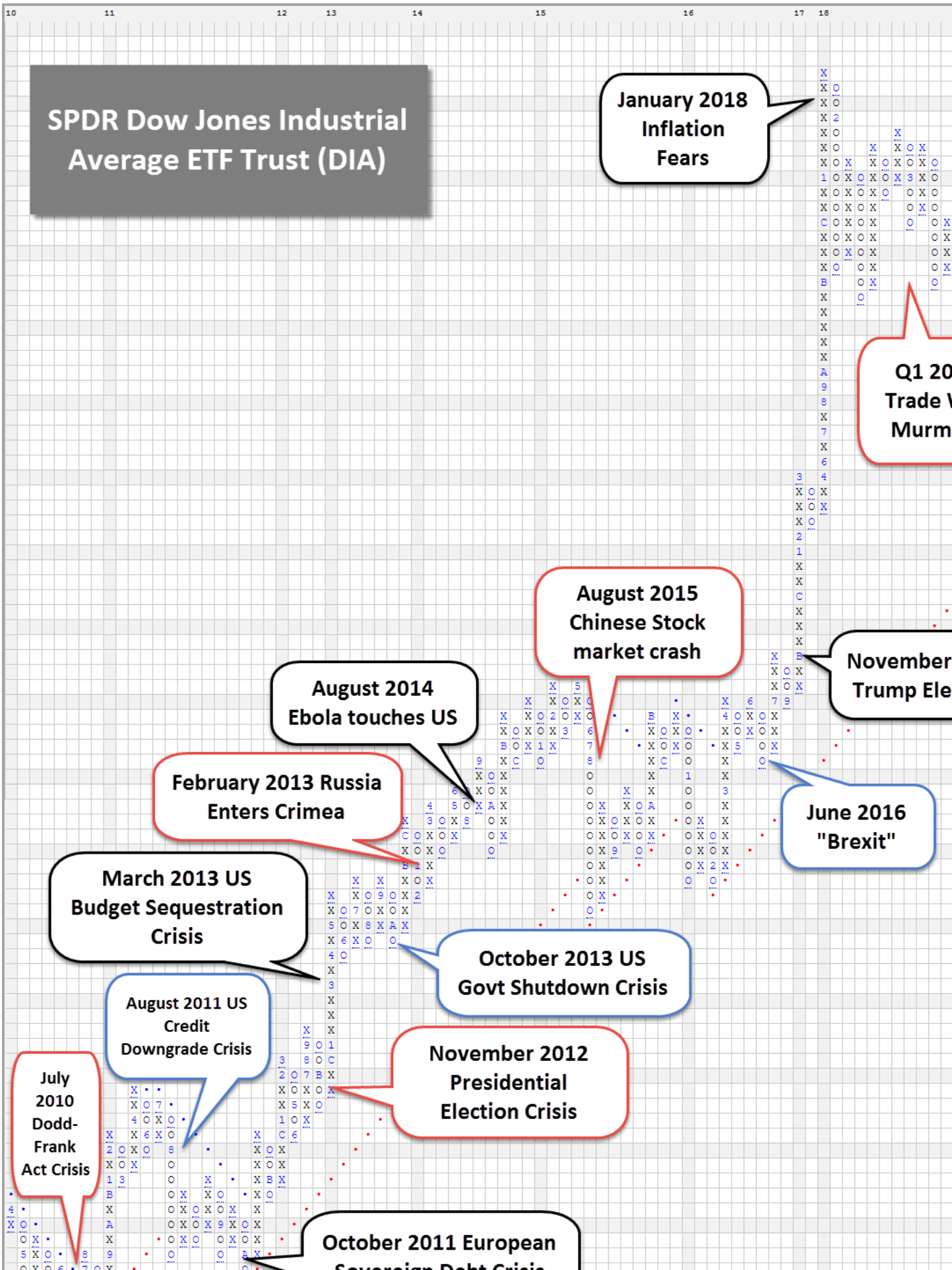
April 26th, 2018

Over the last three months, since the first sell-off of the equity market on January 26th, we've experienced a higher-than-usual volume of calls from advisors with worried clients. The next Big Scary Thing is always just around the corner and the financial news industry will always be constructing billboards with 10-foot-tall, bold-faced type to highlight any potential bump in the road. After all, they earn a living by generating clicks, and an article titled "Don't Worry, Everything's Fine", doesn't generate many clicks – "If it bleeds, it leads." didn't become a newsroom adage by accident.

There is a commercial for an investment advisory firm that runs on local radio stations here in Richmond, VA which ends "…reminding you that professionally designed portfolios aren't affected by headlines." And, while perhaps it would be more correct to say "…professionally built portfolios aren't affected by headlines **over the long-term.**", the basic premise is one that we would all do well to keep in mind and to remind clients of. As surely as you can rely on the sun rising tomorrow, you can rely on the financial media hyping the next Big Scary Thing. And you can also rely on the fact that they're usually going to be wrong and even in cases where the Big Scary Thing does happen, the consequences are usually not as dire as hypothesized. Take a look at the image below which shows some of the Big Scary Things over the last eight years against the backdrop on the SPDR Dow Jones Industrial Average ETF's DIA $2 per box PnF chart.


SPDR Dow Jones Industrial Average ETF Trust (DIA)
January 2018 Inflation Fears
Q1 20 Trade Murm
November Trump Ele
August 2015 Chinese Stock market crash
August 2014 Ebola touches US
February 2013 Russia Enters Crimea
June 2016 "Brexit"
March 2013 US Budget Sequestration Crisis
October 2013 US Govt Shutdown Crisis
August 2011 US Credit Downgrade Crisis
November 2012 Presidential Election Crisis
July 2010 Dodd-Frank Act Crisis
October 2011 European

As the DIA chart shows, several Big Scary Things during this period had little or no effect on the market - DIA didn't even reverse down during the 2013 budget sequestration crisis and even with all of the anticipation and speculation before the Brexit referendum, DIA recovered within a month after Britain voted to leave the EU. The largest drawdown DIA experienced over this period was during the August 2015 Chinese stock market crash, yet we can see that DIA was within two boxes of its May high by the beginning of November. The point here is not that bad things or bear markets can't happen. The point is that the news isn't a good indicator and having an objective rules-based system can help you avoid falling prey to the noise while remaining cognizant of the real signals the market, not the media, is giving you. Keep this chart handy and pull it out the next time a client calls you up because Jim Cramer says the sky is falling.


KEEP
CALM
AND
FOLLOW
YOUR
RULES