



Market Commentary February 12, 2018

Dear Investors:

Back to reality...

After months of eerie calm, stock market volatility has returned. The CBOE Volatility Index (VIX) – a measure of how turbulent investors expect stock markets to be during the next 30 days – appeared to fall asleep in November 2016. For more than a year, a level of serenity that is rarely associated with stock markets prevailed and U.S. share prices moved steadily higher.

It appears that time is behind us. *Barron's* wrote:

“With February’s swift stock market correction, volatility has arrived and will probably stay awhile. The downturn last week ended a streak of 404 trading days without a 5 percent drop in stock prices from the previous high – the longest such streak in market history.

The last correction came in February 2016, when stocks dropped 15 percent. Investors then fretted that Chinese economic growth might be slowing, which turned out to be a false alarm. Long term, the latest nose dive might yet become just a bull speed bump, but there’s already been plenty of pain.”

So, is this a speed bump or is it the beginning of a bear market? A bear market, generally, is a decline of 20 percent or more, and it is normally accompanied by a recession, which is a significant decline in economic activity.

In general, financial firms and publications do not anticipate a recession in 2018, but forecasting recessions can be challenging.

No matter what happens, the key is keeping your head. At times like these, emotion grabs investors by the throat, and it can be difficult to recall markets and economies tend to move in cycles. Historically, bull markets lead to bear markets, which lead to bull markets. Likewise,

4100 Embassy Parkway, Suite 100, Akron, Ohio 44333-1783
330-434-2000 / Fax: 330-665-1515

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economic expansions are followed by contractions (recessions), which are followed by expansions.

U.S. stock markets rallied on Friday, but the Standard & Poor's 500 Index, Dow Jones Industrial Index, and NASDAQ all finished the week more than 5 percent lower.

Data as of 2/9/18	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-5.2%	-2.0%	13.5%	8.6%	11.5%	6.9%
Dow Jones Global ex-U.S.	-6.3	-2.7	16.0	4.4	3.7	0.9
10-year Treasury Note (Yield Only)	2.8	NA	2.4	2.0	2.0	3.6
Gold (per ounce)	-1.3	1.4	6.3	2.0	-4.5	3.7
Bloomberg Commodity Index	-3.9	-2.9	-3.3	-6.1	-9.4	-8.0
DJ Equity All REIT Total Return Index	-4.2	-9.6	-2.9	1.9	6.7	7.3

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

MARKET DOWNTURNS ARE NOT A DESTINATION.

Markets and economies are cyclical. For instance, from 1945 through 2009 (the start of the current expansion), the United States experienced 11 economic cycles. The average recession lasted for about 11 months and the average expansion persisted for about 58 months, reported the *National Bureau for Economic Research*.

After the recent market decline, many people are concerned the bull market may have run its course, and a bear market may be ahead. Since bear markets usually mark the beginning of recessions, let's take a look at what some leading financial companies and publications have to say about their expectations for 2018:

"The U.S. expansion is on course to become the longest on record, stirring concerns it is about to run out of steam. But is it? The recently enacted tax overhaul and higher federal spending could add 0.8 percentage point to U.S. GDP [gross domestic product] growth in 2018, we estimate. This could tip the balance toward accelerating growth. Such a boost could shorten the cycle's expiration date to two or three years."

--BlackRock Investment Institute, February 7, 2018

"Most analysts think that while profits are growing and the economy is healthy, the stock market will be supported. But there is scope for a lot more choppiness as investors await the Federal Reserve's rate decisions and look for data to indicate whether inflationary pressures are rising."

--The Economist, February 8, 2018

"Perhaps the over-arching risk is complacency. While the current conjuncture might appear to be a sweet spot for the global economy, prudent policymakers must look beyond the near term...The next recession may be closer than we think, and the ammunition with which to combat it is much more limited than a decade ago, notably because public debts are so much higher."

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--IMF Blog, January 22, 2018

“While we expect volatility will be higher this year than in 2017, with company fundamentals looking solid and synchronized global economic growth set to continue, it seems reasonable to expect that stocks will move higher over the coming year.”

--J.P. Morgan Asset Management, February 5, 2018

“An overheating global economy could mean a more rapid shift by central banks to rein in stimulus, often a precursor to recession. Yet, we still believe a recession is not on the near-term horizon.”

--Schwab market commentary, February 9, 2018

Forecasting is a difficult task. Time will tell.

Weekly Focus – Think About It

“Stock market goes up or down, and you can't adjust your portfolio based on the whims of the market, so you have to have a strategy in a position and stay true to that strategy and not pay attention to noise that could surround any particular investment.”

--John Paulson, Investment manager

Best regards,

SYMPHONY FINANCIAL SERVICES, INC.

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.

* All indexes referenced are unmanaged. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.

* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

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- * Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
- * The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- * The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
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