McGill Advisors

A Division of Brightworth

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Market Update

It seems the stock market is having a very difficult time finding solid ground. After staging an impressive rally in the opening days of November, stocks have breached their October lows and are now down for the year. As of the close today, the S&P 500 had delivered a loss of 3% year-to-date. If the S&P 500 finishes in the red this year, it will be the first time this has happened since 2008. Let that sink in. It has been 10 years since large cap U.S. stocks as measured by the S&P 500 have experienced a calendar year loss. Hopefully that puts into perspective just how overdue we have been for a down year and we are still only talking about single digits.

To be a successful long-term investor you have to do exactly what that term implies. Think long term. Since 1926, the S&P 500 has delivered a positive return 87% of the time over all rolling 5-year periods. The probability increases to 95% at 10-years and almost 100% over 15-year periods[1]. While those numbers sound great, they also imply that 13% of the time you have lost money over five years and even 5% of the time over ten years. The past ten years have likely lulled many investors into a false sense of comfort, thinking that even when stocks go down they always come back within a couple of months. It's almost as if the scars from 2008 have been completely removed, with many thinking stocks are essentially a risk-free asset. All you have to do is put your money in an S&P 500 index fund and you will make money. If that has been your game plan, you have lost 13% since the September 20th high. For most investors, losing that much in such a short period of time is too difficult to handle.

Since the September 20th high, core bonds as measured by the Barclays Aggregate Index have returned over 1%. That might not sound great but, when compared to the S&P 500 return, you can see that investors with some of their assets in bonds have certainly had a smoother ride than those who don't. No one knows with certainty what the next three months or three years has in store for the stock market. Predicting this with any level of accuracy has been proven, time and time again, to be futile, so we do not recommend trying. Instead, make sure the amount of risk you are taking in your portfolio is inline with your risk tolerance. As you can see from the probability statistics above, time is your friend when it comes to investing.

Investment Strategy Update

Over the past couple of weeks, we have continued to make adjustments to our managed accounts. We reviewed all of our managed taxable accounts for possible tax loss harvesting trades. Where we deemed it prudent, we sold stocks at a loss to offset some of the gains we had generated earlier in the year. We also rebalanced our accounts two weeks ago when the S&P 500 first closed below 2,638. This marked a 10% drop from the September 20th high and triggered our rebalance target. Our new targets are 2,345 and 3,181. If the S&P 500 breaches either of these, accounts will once again be reviewed for rebalancing. Finally, we have nearly completed our review of our managed mutual fund accounts. These accounts were reviewed to make sure we were comfortable with the specific funds that were being used within the models based on risk tolerance.

As always, we truly appreciate the confidence you have placed in us to navigate your financial well being during these volatile times. If you would like to speak with your advisor to review any changes that have been made or review your accounts to make sure they remain inline with your risk tolerance, be sure to reach out to your relationship manager to schedule a meeting.

Sincerely yours,

McGill Advisors

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(1) Source: www.seekingalpha.com, Stock Returns – The Uncommon Average (11.11.17)