NEHRBAS WEALTH MANAGEMENT

Your Partners in Wealth at Janney Montgomery Scott LLC

"A cynic is someone who knows the price of everything and the value of nothing."
-Oscar Wilde

It would certainly be impossible for me to start this article without acknowledging the 12% decline we experienced in the first six weeks of 2016. There were many reasons for this decline, but most notably we would name sharply falling energy prices, the fear of rising interest rates, a strong dollar, a slowing Chinese economy and the upcoming Presidential election.

We have seen a meaningful recovery since mid-February when energy prices began steadily rising and it became more apparent that the Fed might not raise interest rates as quickly as was implied at the beginning of the year. But the question remains, where does the market go from here?

As described in our article from the third-quarter 2015 newsletter, "Security Today many mean Insecurity Tomorrow", it is our collective belief that abandoning strategic and diversified investment strategies for "safe investments" now, such as cash or CD's, is not a good idea for investors with a long-term horizon.

Market moves in the short-to-intermediate term are unpredictable. However, longer-term, as long as the economy continues to grow, which we believe is the case, the market trend should be upward. Historically the S&P 500 *(a proxy for the US stock market)* has appreciated by about 10% per year for the last 45 years. Even if this were reduced to a more conservative 7% moving forward, that number would still easily beat fixed income and cash over the long term, in our opinion. The trick is that the 7% is not guaranteed nor are the timing of those returns.

For instance if the following sequence of returns totals a 7% annual compounded return: (-12%, -8%, +24%, +9%, +28%), after the first two years, this investor would be down 19% on her original investment. Now, if she is like most investors, it's likely that she would be convinced more declines are ahead (recency bias) and dismayed at her judgment for trusting equities to grow her wealth. However, in actuality this is the time she should come to the realization that the stocks in her portfolio are on sale* and buying more at lower prices might be the best strategy to increase her wealth. The critical thing to realize about investing in stocks is that **even though the price has dropped, the value of the companies you own may not have.** In fact, equating price and value when investing is not necessarily a good idea. This is empirically true over the longer-term given that the price of equities have always bounced back from their lows to reach new highs.

It is easy to get caught up in the daily volatility of the market, which can be detrimental to a portfolio in the long run. Therefore, it is best to have a long-term perspective and focus on value rather than price. We believe this is something we can help you with at Nehrbas Wealth Management.

*When purchasing most goods, the average consumer will snap up merchandise that goes on sale. Everyone loves a bargain and just because merchandise has been marked down doesn't imply the item is damaged or in some way diminished in value. The lone exception to this rule appears to be stocks.

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