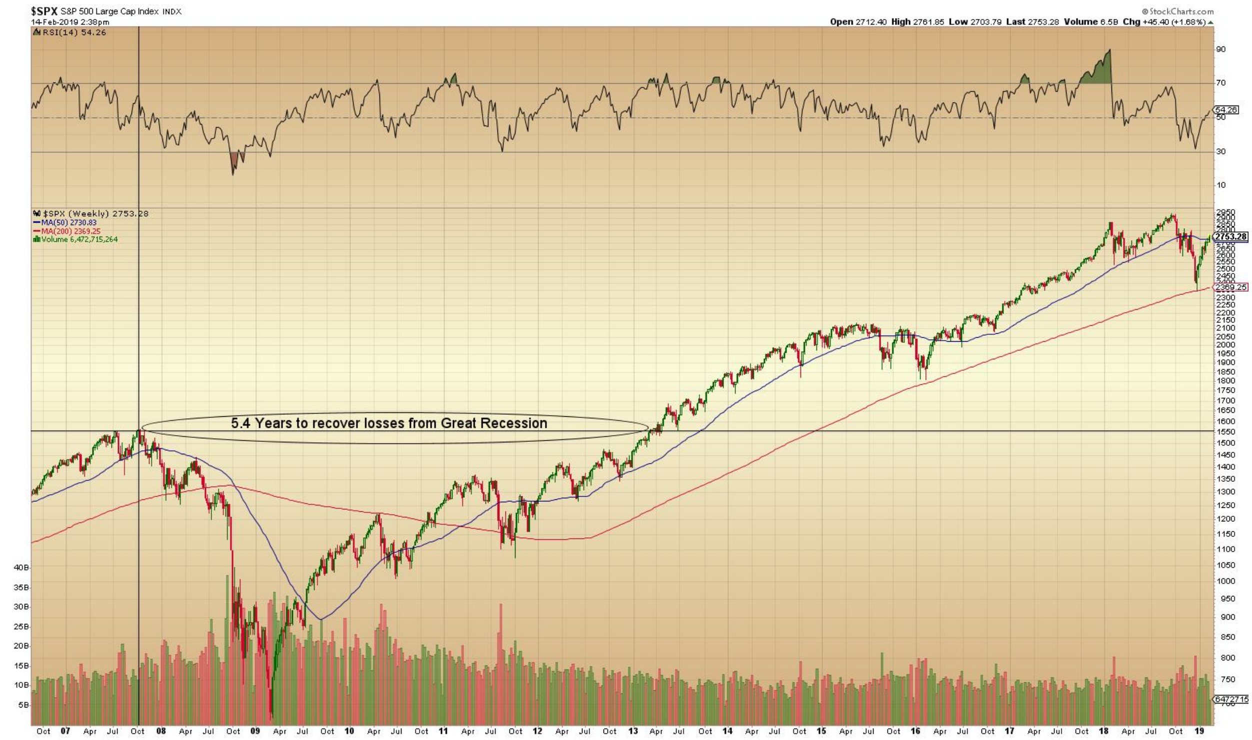
Most long-term investors accept market corrections as short-term setbacks that simply must be endured from time to time. Trying to time these unpredictable and usually sudden dips in market values is imprudent, at best. Minor corrections or declines of between 5% and 10% are the most common and, according to Yardeni Research, Inc., the S&P 500 has experienced six of them in the last decade. Major corrections of greater than 10% have been just as common over the same period. True Bear Markets, drops of greater than 20%, are far less frequent and typically associated with economic recession. The last Bear Market in the United States was wrapping up just about 10 years ago, in the first quarter of 2009. Given the frequency of market dips of varying magnitudes, one would assume we'd react to them levelly and without much passion. Well, we know what they say about assumptions.

At least three factors make it almost impossible to sit still during a time of prolonged market decline. One is the varying degrees of loss during downward trends. We never really know how deeply the market will retract when a downtrend begins. Another is the uncertainty about the duration of the downturn. Of the twelve corrections mentioned over the last ten years, the average number of days it took for the market to bottom out was about 64 and the average loss was 11.5%. While that doesn't sound too terrible, averages can be misleading. The worst correction over the period (during 2011) was a drop of 19.4% that lasted 157 days. The most recent downturn at the end of 2018 was a 19.8% pullback lasting 95 days. Lastly, periods of relative calm with consistent growth and dips of less than 5% can give investors a false sense of security making the inevitable downturn seem more shocking than it otherwise would. The last correction is a perfect example. Most of 2016 and all of 2017 were completely correction free. So too was the period between the first quarter of 2003 and the fourth quarter of 2007, where only one correction of just over 8% lasted for about six months.

As for major, extremely protracted downturns, there have only been two since the turn of the century; the financial crisis between 2007 and 2009 (referred to as the Great Recession) and the dot com crisis between 2000 and 2002. In both instances, the US economy was in recession, which is defined as negative GDP growth for two or more consecutive quarters. Our economy is currently white hot. U.S. GDP is still in positive territory, employment is still growing, wages are growing and consumer sentiment is strong, based on the latest retail sales data reported in the Wall Street Journal. The disparity between economic and market performance may seem a bit puzzling, but should actually be at least somewhat reassuring. We just haven't historically experienced truly long-term downturns in the absence of real economic recession.

Financial markets are volatile and asset values fluctuate daily based on the collective investor sentiment regarding a company's ability to grow its revenue and earnings. The major themes effecting market performance of late have had to do with concerns over trade policy, inflation and interest rates, all of which potentially threaten growth. China's slowing economy is also a threat. Many companies at home and abroad have cut revenue forecasts blaming softening demand in China. So, while there may be real threats to revenue and earnings growth, the divergence between the market's recent performance and that of the economy is remarkable, and is based on the uncertainty related to the resolution of those concerns.

If we accept the recent pullbacks as the return of more historically appropriate volatility, investors might take this opportunity to address their risk tolerance again, particularly those within a few years of retirement. One element of corrections and Bear markets that we haven't addressed here is the length of time it takes for asset values to recover after a period of losses. The length of time in days presented above refers to the duration of the decline from a recent high, not the length of time required to recover the losses. In most cases the recovery time is within a few weeks or months of the bottom. For the more extreme losses, however, recovery times can sometimes be measured in years. During the dot com crisis of the early 2000's, for example, the S&P 500 entered a Bear market in early 2000 and proceeded to lose nearly 50% of its value over the next two and a half years, bottoming out in late 2002. The index then began a slow recovery enduring two additional corrections in 2002 and 2004. It wasn't until the end of 2007, essentially five full years from the bottom that the index was again at pre-recession values. Soon after, though, began the losses associated with the financial crisis and the ensuing Great Recession. In that case, the index didn't return to its pre-recession value until sometime in 2013. These examples both illustrate that while most corrections are short-lived, others can turn into Bear markets that take years to recover from; and therein lies the anxiety.



S&P 500 Weekly Chart from 2007 - Present

We've been looking at the S&P 500 for discussion purposes here, but in reality most investors are diversified so that only a portion of their overall portfolio is exposed to such extremes. We also understand that investment doesn't end with retirement and we should be planning through our retirement date, thinking more about the security and longevity of cash flows for our life expectancy. We've also demonstrated that even the most precipitous drops in index values are usually fully recovered within five years to seven years.

In closing, we'd like to reinforce a few key points. First, keep a long-term, through retirement perspective. Too often investors panic as their retirement date approaches and they make changes to their allocations at precisely the wrong times. Secondly, risk tolerance is not static and shouldn't be considered once and forgotten. Risk tolerance drives allocation, which is the most important determinant related to portfolio performance. As we age, our allocations will need to change to minimize the impact of violent swings in the equity markets. Over time a smaller and smaller portion of investment portfolios will be allocated to the more volatile asset categories, but we believe they continue to provide important growth opportunities well into retirement.

We will continue to work on your behalf and in your best interest, making portfolio adjustments as market conditions and economic forecasts change. Please give our office a call if you have questions. As always, we are humbled by the trust you continue to place in us and honored by the opportunity to serve as your fiduciary advisors.

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ACCOUNT SERVICES

If you require account service or information (deposits, withdrawals, transfers, address or name change, etc.), please contact our office.

Please be so kind as to inform us of any and all changes that may affect our ability to service your accounts. In particular, please inform us immediately if:

1) You have any changes to your financial condition or would like to reevaluate your risk tolerance.
2) You change your "mailing" or "physical" address.
3) You change banks thereby impacting a standing "MoneyLink" or other money movement instructions.

If you wish to schedule a phone conference or meeting with your advisor, please contact our office.

BUSINESS CONTINUITY & DISASTER RECOVERY

FMI maintains a current Business Continuity and Disaster Recovery Plan to address the actions we will take should we encounter events similar to the Katrina floods, 911 attacks, or other similar disasters. The plan also addresses our response to short-term business interruptions—ice storms, extended power and/or internet outages, etc.

In the event of a bona fide disaster or short-term interruption, we will be available via normal communication modes – email and phone.

In the event you are unable to contact us during a bona fide disaster or short-term interruption and you need to access your accounts or account information, you may call Schwab directly:

Schwab Alliance: 800-515-2157

OFFICE CLOSURES

Please take note of our holiday office closures:

Monday, February 18, 2019 (Presidents' Day)

Friday, April 19, 2019 (Good Friday)

Monday, May 27, 2019 (Memorial Day)

OFFICE HOURS

Please take note of our office hours:

Monday – Friday

8:00 a.m. – 4:30 p.m.

FORM ADV, PART II

Please contact your Advisor if there are any changes in your financial situation or investment objectives. Please contact Harold F. Grubbs, President of Financial Management, Inc. (501.227.7400), if you wish to impose, add or modify any reasonable restrictions to the management of your account by your Advisor, Financial Management, Inc. Our current disclosure statement is set forth in a written disclosure brochure based on Part II of Form ADV and is available for your review upon request.

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