

April 5, 2018

Dear Valued Investor:

The month of April has opened with some volatile market swings, accompanied by speculation of an escalating trade war. It's during times like this that we need to take a step back, avoid getting caught up in the headlines, and look at the big picture of the economic and market environment. In this case, that means focusing on the fundamentals of positive economic growth, a strong earnings outlook, and still low interest rates. These are the factors that may ultimately lead to this market's recovery and get us back into positive territory.

We've been experiencing volatility in the markets since early February of this year, driven first by wage inflation fears (which have since been discounted), and now the big stories are trade concerns and regulatory risk in technology. Concerning trade, the war of words between China and the United States has escalated, but it's important to note that nothing has been put into effect yet. There is room for negotiation, and a compromise may be reached before these proposed tariffs are put in place. That said, uncertainty about the outcome is weighing on the markets.

However, it's important to remember that volatility and the process of the stock market bottoming out is often not a one-time sell-off. For example, looking back to late 2015, we experienced a market decline in August but—despite a temporary rebound—volatility continued and the decline did not hit bottom until February 2016. So essentially, this period of volatility extended from August 2015 until February 2016. The important takeaway here is that this volatility could continue for a period of time and it doesn't necessarily mean we're entering a bear market.

In fact, having begun 2018 expecting a degree of volatility, LPL Research continues to maintain its forecast for positive stock returns for the year.* They also remain confident in their expectation that a "return of the business cycle"—driven by fundamentals and fiscal stimulus—will lead to continued growth and stock market gains.

The following factors may be supportive of positive market returns:

- Increased fiscal stimulus thanks to tax cuts and increased government spending
- Estimated double-digit earnings growth throughout 2018*
- Still low interest rates, relative to historical averages

The bottom line is that wavering market sentiment can last over a period of weeks (or months). And although you should never be dismissive of risk, the fundamentals may win out. Back in 2015, there were low interest rates but economic growth was slowing and earnings were weakening. Now, we have strong profits and coordinated global growth to support the recovery process.

Market declines and alarming headlines are always going to grab our attention. But that's when I encourage you to remain focused on the underlying factors that have a longer-term impact on the markets and economy. These factors suggest that the market has the potential to weather this bout of volatility, and we may see positive stock market returns for the year.

If you have any questions, I encourage you to contact me.

Sincerely,

Rick Fisher, CFP®

*Securities offered through LPL Financial member FINRA/SIPC

Important Information

*LPL Research's S&P 500 Index total return forecast of 8–10% (including dividends), is supported by a largely stable price-to-earnings (PE) ratio of 19 and LPL Research's earnings growth forecast of 8–10%. Earnings gains are supported by LPL Research's expectations of better economic growth, with potential added benefit from lower corporate tax rates.

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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Economic forecasts set forth may not develop as predicted.

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments.

This research material has been prepared by LPL Financial LLC.