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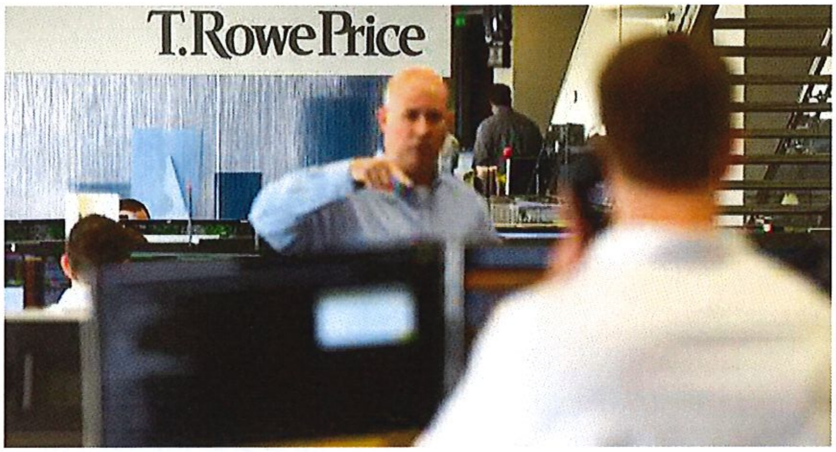
Remain disciplined despite market's volatility, Md. financial advisers say

By: Tim Curtis Daily Record Business Reporter February 9, 2018



The trading floor at T. Rowe Price. (File Photo)

Maryland money managers preached patience after a tumultuous week reintroduced volatility to the stock market, triggering headlines and frequent push alerts from news services.

The Dow Jones Industrial Average and S&P 500 dipped into a correction this week, but the underlying economic vitals remained strong and investors who remain disciplined should be rewarded, managers said.

"I think that this pullback was overdue," said Jeff Schulze, a director and investment strategist at ClearBridge Investments, a Legg Mason, Inc. affiliate. "We've had a very long stretch of positive market momentum ... When you have that long of a positive stretch, you get a lot of complacency."

A strong finish Friday capped a turbulent week that saw the markets finish down 5 percent and reintroduced fluctuations not seen in more than 400 trading days.

The market's recent calm seas were historic. It was the longest stretch in nearly 100 years without at least a 5 percent drop, Schulze said.

A return to volatility would be a theme for investors this year, Megan Horneman, director of portfolio strategy at Verdence Capital Advisors in Hunt Valley, wrote in December.


Megan Horneman

Last year, she said, there were only eight days with a 1 percent increase or decrease. Historically, there are 60 such days a year.

That means the volatility introduced this week should be expected to continue throughout the year, said Brian Kroneberger, a managing director and financial adviser with the Dyer Kroneberger Group.

"We're probably going to have more volatile days than normal because we're making up for the years we've had," he said. "Volatility is probably good in the sense that maybe, as investors, we became a little bit complacent as to what owning equities was all about."

Optimism had become "excessive," Schulze said. Investors had lost track of the risk side of entering the equity market.

"Quite frankly, at the end of January, after that great stretch that we had, there wasn't any fear out there," he said. "(After this past week,) there was fear that's been created out there and it allows the market to get to a much more fundamentally sound place."

While the market received a lot of attention on Wall Street and in the media, that did not necessarily translate to investor anxiety, said Judith Ward, a senior financial planner at T. Rowe Price Group, Inc. The firm saw some increased call volume, but that did not translate into significantly more transactions than usual.

"For a lot of people, believe it or not, they may not even be paying attention," she said. "We have found that our phone volume goes up a little bit, our web traffic goes up a little bit on these more volatile days. But that doesn't always translate to higher transactions."

Judith Ward

For younger investors and people with some money on the sidelines, Thursday's correction could have created an opportunity. The drop allows them to buy into a lower market than had existed for the last two months.

"For those of us who are patient, volatility gives you a better buying opportunity," Kroneberger said.

But even for investors who already had money in the market, the drop has only brought it back to November levels. They are still up significantly over the past one or two years.

Advisers are telling investors to remain disciplined and patient.

"At T. Rowe, we have the responsibility to educate our investors about taking it all in stride, having a long-term investment plan and taking the emotion out of it by kind of automating your savings," Ward said.

And despite the increased volatility, the economy's underlying indicators remain strong.

"The most important thing that clients should be aware of is that nothing fundamentally with the economy has changed," Horneman said.

Last month, the federal government's job report showed the United States continues to move towards full employment and that wages have grown 3 percent over the last year. Those numbers show a strong economy but have also stoked fears of inflation.

One thing that seems to be driving uncertainty is the potential for higher interest rates from the Federal Reserve as it looks to stave off that inflation.

"The worry is about the economy overheating," Ward said. "That could be a worry, but we just don't see that that's the concern currently. ...The economy is doing well. People are at work and wages are going up."

And while last year's tax bill may have overheated the market to put it in the position to reintroduce volatility — it rose 12 percent post-tax reform — companies will still be posting stronger returns as the law tax effect.

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