CAUBLE & HARRE
WEALTH MANAGEMENT

12977 NORTH 40 DRIVE, SUITE 213
ST. LOUIS, MO 63141
314-576-1112 | CAUBLEHARRE.COM

Market Note | October 12, 2018

Was the drop in markets this week a warning of things to come, or was it a normal occurrence for stock markets that we have to plan for when developing investment strategies? I vote for the latter, which is why we promote balanced portfolios.

Drops like the last few days are certainly reported on with flair, and that can color the rest of our thinking. We can run through the list of concerns that are always present to see if they are finally going to rule the day. It is always healthy to do this, but after doing so, I think that we are okay. Declines like this week in terms of amount are well within the realm of normal. It is quite normal for the market to sell off 6% to 8% at some point during each year, and most of those years still end in positive territory.

Valuations today offer support for the markets, and earnings are expected to continue to be strong. In our last quarterly letter we expressed concern that the domestic market last quarter seem to race ahead of actual earnings growth. That is no longer the case. I am more comfortable with that. I do think that the U.S. market can appreciate now in line with earnings growth, and that international markets have more opportunity to grow over the next 3 years.

Over longer periods of time, stocks produce growth in portfolios (which is needed), because earnings go up over time. During shorter periods of time, sometimes earnings fall or sometimes people don't want to pay as much for earnings, and stock markets fall. The answer to dealing with this potential short term outcome is waiting for earnings to rebound (and markets also). The way you do this is to have enough in bonds so that you can fund your cash flow needs for some period of time without having to sell a stock that may be temporarily depressed in price.

The manner that we construct portfolios would allow our clients to fund their income needs from the more stable side of their portfolios (bonds) for at least 6 years. Stocks and earnings fully recovered within 5 years after the Great Recession, so we think this is a sound strategy.

We would be happy to talk in person about any account specific concerns.

Regards,

Peter B. Harre, CFA

LIZ H. CAUBLE, CFP
liz@caubleharre.com

PETER B. HARRE, CFA
peter@caubleharre.com