POTTLE FINANCIAL SERVICES

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OCTOBER SELLOFF

INSIDE THIS ISSUE

"The value of any investment is, and always must be, a function of the price you pay for it."

BENJAMIN GRAHAM

On October 10, 2018, the S&P Index declined 3.3%, and the volatility index increased to the highest levels in six months. There is not one readily identifiable catalyst driving this recent market correction; however, we believe it is a combination of multiple factors, with rising interest rates and uncertainty regarding trade tariffs being two of the major contributors.

Interest Rates: The continued rise in interest rates, emphasized by a 30 basis point increase in the US treasury yield over a 30 day period, likely played a large role in the recent market change. We have been in a bull market for some time now, with companies performing well as a result of the Tax Cuts and Jobs Act, and deregulation. Increases in interest rates are a mechanism used to control this growth, discouraging companies from borrowing at higher rates and curtailing business expansion. In the case of companies like Sears Holdings, who filed for bankruptcy this week, the cost of debt became unsurmountable, as they could not make their $134 million debt payment due Monday.

Tariffs: Recent trade wars and concerns regarding the impact of tariffs on US companies has added fuel to the fire. These tariffs will create additional challenges for companies, who will either have to pass on the impact to customers or take on the additional burden themselves. This has in turn created additional anxiety among investors, with most on the edge of their seat, waiting for Q3 earnings.

Our dilemma as investors remains the same – ***where do we invest for the rest of 2018?***

EQUITIES

We expect that the market recovery will continue; however, due to ongoing volatility, we plan to maintain a slightly more conservative approach. We continue to have faith in our preferred mutual funds, and may add an increased amount of alternative investments to balance risk within portfolios.

We will be very cautious and thorough when adding any individual stocks to portfolios. We believe that US stocks will likely outperform International stocks in the short-term; however, growth may decline in the next year as the impact of rising interest rates, trade tariffs, and increased wages/costs is realized.

FIXED INCOME

We have selected to add some corporate bonds to portfolios as an alternative to bond funds. These will be a more stable option in a rising interest rate environment.

Please call with any questions. Thank you for investing through Pottle Financial Services.

Anna Pottle   Philip Bailey