

August 26, 2015

Defcon 3 – Cause for Concern

By Scott P. Noyes, CFA® CFP®

When the stock market declines by 2,000 points in a week, there is cause for concern. On August 20th the stock market broke out of its 10-month trading range with a decisive move to the downside. There are a variety of possible factors contributing to the recent sell-off including:

1. Economic weakness in China, leading to concerns about a global slowdown;
2. Falling oil and commodity prices leading to concerns about deflation;
3. Technical deterioration for chart and model-driven investors;
4. Widening credit spreads for high yield borrowers;
5. Deteriorating earnings and growth expectations for many companies;
6. Debate about the timing of Fed tightening;
7. Concern that the six-year stock market rally is getting long in the tooth;
8. The summer and fall months are historically the weakest months for investors.

For the long run I am very comfortable holding mutual funds and ETF's composed of high-quality U.S. and developed-world equities. The U.S. economy is chugging along at a mid-2% growth rate, Europe and Japan are on an economic upswing and global consumer spending should benefit from lower oil prices and a stronger dollar.

However, as with most stock corrections, the question is always “Will there be more and how much?” Needless to say, nobody has the answer. While I remain optimistic for the intermediate and long-term, this move has created some level of concern and I am taking the following actions:

1. Reducing all account equity levels to modestly below their long-term target levels;
2. Paring exposure to emerging markets and small-cap equities as these will be the most volatile in the current environment;
3. Decreasing credit-spread risk in the bond allocation of portfolios;
4. Extending bond maturities as there appears to be little risk of higher inflation for the near future;
5. Holding some cash on the side for future buying opportunities.

My goal is to have the core stock and bond portfolios be sound and fully equipped to ride through any meaningful market correction and to participate in a subsequent upside rally.

For you the investor, the correct course of action is to remain patient and stay focused on keeping long-term goals aligned with a fully-invested equity portfolio. The modifications to risk exposures are consistent with new market dynamics. While volatility is normal, it is no fun to live through it. As for tomorrow, nobody can predict when the market will go down or up. We have just ride out the short-term volatility to achieve our long-term objectives while maintaining prudent risk profiles.

Please call me with any questions or concerns at 973-267-8120.

Scott P. Noyes, CFA®, CFP® is the President of Noyes Capital Management®, LLC, an independent fee-only wealth management firm based in New Vernon, New Jersey. www.noyescapital.com

This newsletter is limited to the dissemination of general information pertaining to investment advisory services of Noyes Capital Management®, LLC (“Noyes Capital”). No portion of this commentary is to be construed as a solicitation to buy or sell a security, or the rendering of personalized investment, tax or legal advice. Any reference to a market index is included for illustrative purposes only, as an index is not a security in which an investment can be made. Past performance is no guarantee of future results, as there is no assurance that the views and opinions expressed herein will come to pass.

Noyes Capital Management®, LLC (“Noyes Capital”) is a state registered investment advisor with a principal place of business in the State of New Jersey. Noyes Capital and its representatives are in compliance with the current registration requirements imposed upon registered investment advisors by those states in which Noyes Capital maintains clients. Noyes Capital may only transact business in those states in which it is registered, or qualifies for an exemption or exclusion from registration requirements. Any subsequent, direct communication by Noyes Capital with a prospective client shall be conducted by a representative that is either registered or qualifies for an exemption or exclusion from registration in the state where the prospective client resides. For additional information, please consult Noyes Capital’s Form ADV disclosure documents, the most recent versions of which are available on the SEC’s Investment Adviser Public Disclosure website (www.adviserinfo.sec.gov) and may otherwise be made available upon written request.