SIMMONS ASSET MANAGEMENT

Strategic Investing.

Correction in Historical Terms

People tend to get nervous when they see a correction in the market. If you think about it over time though, the market grows and doubles roughly about every seven to 10 years. When you look back over that span of time, any market drop becomes marginalized.

As the market grows, the historical corrections are diminished. For example, let's take the single worst day in market history: October, 19, 1987, commonly known as Black Monday. On Black Monday, the Dow Jones Industrial Average dropped over 500 points in one single day. At the time, that drop represented a 23 percent fall in the market – a big one at the time.

In today's terms, if the Dow Jones were to drop 500 points, it would only represent a 3 percent drop. Markets can swing up or down 3 percent in any given week and commonly do, so the scenario doesn't appear as drastic in historical terms. As the market grows, the smaller that correction becomes. The lesson is that no matter how drastic things seem today, it just isn't that big of a deal in the big picture.

Mid-Year Report

As we discussed in our last newsletter, 2014 was relatively flat, and I believed this year would be somewhat similar. Many securities that underperformed last year have performed well, while the major market indices have staggered. That scenario continued until just a few weeks ago, as news headlines about Greece, interest rates, the stock exchange trading halt and heightened security issues flooded the media — and shook the market.

It would be difficult not to worry amidst all the bad news and, as a result, short-term market fluctuation is inevitable. I expect to see some choppiness in the near future just as we've seen throughout the first half of this year. Any dip right now should be celebrated by the majority of investors as long overdue and a terrific opportunity. I would rather see the domestic market flat at the end of the year than have it surge up, and a correction come in 2016 or 2017.

Experience Matters

It's no secret there's a high failure rate in the financial services industry — more than 80 percent. According to that 80 percent statistic, most investment professionals fail as a result of the financial advice they provide. And keep in mind that most people who write the news headlines we are inundated with every single day aren't financial professionals and have no practical background in the industry. My point is that the majority of the information and advice we get about our money is given to us by people who just don't know what they're talking about.

Aside from family, faith and health, money is one of the most sacred things in our lives. It's scary to think that our financial future could possibly hinge upon terrible advice we get from the radio, television, cocktail party conversation or even a professional.

I've been practicing in the advisory business for nearly 15 years now, making me a veteran in the industry. My first day as an advisor was Sept. 11, 2001. That might seem like the worst day possible to get into this business, but nearly 15 years later, I'm still here thanks to some fantastic mentors and the mindset to never quit.

My advice for you is not to give up when things get difficult or even during times of irrational exuberance. No matter how unpleasant the headlines or how much you think you will fail at growing your portfolio, things will always get better. Sometimes you have to sit and wait patiently through the turmoil, but a long-term approach makes the investment process easier to bear.

A good friend of mine was recently on the Jim Engster show and said there are people who like to look at the market under a microscope just as a scientist would, detailing all the particles and germs. Then, there are others who take a step back and look at the big picture. What's really important is what's going to happen in the next 10, 20, 30 or even 40 years. That little speck you see under the microscope today will have little bearing on the long-term picture and if that's what you're focused on, then you're wasting your time and your money.

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Our Two Economies

Recently, I shared with our clients a link to a document titled "Which Economy Are You Worried About?" It explains that there are really two economies in this country: the private, innovative, entrepreneurial one and the government one. Since government is always behind the curve and usually reacting rather than acting, it's never going to be government that propels the economy forward in the long-term. That task lies in the hands of businesses in the free market environment, whose entrepreneurial spirit creates jobs through technology and innovation — and brings us exciting products like the airplane, automobile and iWatch.

If you don't believe me, I encourage you to pull out any long-term stock chart and plot its corporate earnings. You will see that the long-term price of that stock will sharply and closely follow that of its earnings, rather than any economic indicator we see in a news headline.

It's safe to say that if, historically, we would have solely focused and depended on government, we would have missed out on products that changed the world. The Wright brothers, Henry Ford and Steve Jobs were not following government actions. Instead, they were busy making the world a better place to live in, and that's what propels growth.

Most of the equity portfolios the average person has are invested in companies like Apple, Microsoft, Ford, Exxon, etc. — not government. If our investments are made in corporations, why are we continually worried about rising interest rates and other government-producing headlines?

My advice isn't necessarily to go out and buy an iWatch, but rather to do nothing. I always advise my clients to try and ignore the headlines and instead focus on their own financial goals for the long-term future. If you're a long-term investor, you shouldn't be adjusting your portfolio for the short-term anyway. If your financial goals haven't changed, then your plan shouldn't either.

Helping you become a better investor!

Mark Simmons
President

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