



October 2016

## Discipline in Good and Bad Markets

When the markets are relatively stable with no crisis on the horizon, whatever is the financial media to do? It comes up with headlines like: "It's Getting Scarily Quiet in the Stock Market"<sup>1</sup> and "The Stock Market Is Quiet. Too Quiet."<sup>2</sup> Even when the stock market is humming along nicely (as it was in August), there's still pressure to act - often in a way that's contrary to your best interests. Although the fear of losing what we already have is real, successful investing requires discipline in good times and in bad times. Over-optimism in a rising market can be as dangerous as unfounded over-pessimism in a market decline. It's all about keeping discipline over your emotions.

Messages about fear and pessimism can be hard to hear when things are going well, your portfolio is up and the likelihood that you'll meet your most important financial goals is looking better than ever. In August, all three major U.S. stock market indexes - the Dow Jones Industrial Average, the S&P 500 and the Nasdaq composite index - all closed at new highs on the same day.<sup>3</sup> Early last month, the Nasdaq posted an all-time closing high. At that time, the market hadn't suffered a daily loss of at least 1 percent in 10 weeks.<sup>4</sup>

The team at Flourish Wealth Management firmly believes in the lessons of behavioral finance, which has found that investors tend to be over-optimistic about their life prospects and that this optimism can directly affect their financial decisions.<sup>5</sup> Over-optimism combined with market highs can breed overconfidence which can lead to a range of behavioral mistakes. For example, over 80% of people typically say they are above-average drivers but statistically that number should be 50%.

Your long-term, comprehensive financial plan is designed to help take full advantage of a rising market in a deliberate, measured and evidence-based manner that incorporates what decades of peer-reviewed academic research has shown to work. It is important to avoid allowing optimism or pessimism to tilt a portfolio to a particular sector, asset class or stock because one of the few things that may be worse than realizing losses is the knowledge that you failed to take full advantage of the returns provided by the market. We have heard far too many stories about investors who moved their entire portfolio into cash during the depths of the market swoon during the 2008-09 recession, but failed to capitalize on the market recovery since then because they didn't reallocate to a diversified market portfolio.

If you are sticking to your financial plan and to the individually tailored portfolio designed to meet your life and financial goals, you're right where you need to be. Remember, your plan is geared for the long term and takes into account rises and falls, both large and small. Recognize the attempts by the media and others to play on your emotions, and let the team at Flourish help you stay on the right track.

Sincerely,  
Kathy Longo, CFP®, CAP®  
President & Founder

<sup>1</sup> WSJ.com

<sup>2</sup> NYmag.com

<sup>3</sup> Time.com, "This Stocks Indicator Hasn't Been this High Since the Start of the Last Bear Market"

<sup>4</sup> Investors.com, "Nasdaq Closes at New All-Time High"

<sup>5</sup> ETF.com, "Swedroe: Overconfident Enemy in Mirror"

## Investment Update - Back in Style

One glance into my closet at home would reveal that I'm not typically one to rush into new styles or chase the fads of the day. I believe a good long term investment strategy follows a similar approach.

Over the past couple of years we've seen new investment products make splashy entrances onto the scene - strategies such as "minimum volatility" or "smart beta". As you, our clients, know, our investment strategy is born from literally decades of academic research and is supported by Nobel laureates who have contributed significantly to the advancement of Modern Portfolio Theory. Paraphrased to its simplest form, our strategy focuses on value-oriented stocks as opposed to high-growth stocks, and smaller companies as opposed to lumbering behemoths.

Just like my favorite Aloha shirt which graces most summer barbecues I attend, our investment approach is not always in vogue. History has shown there can be extended periods where growth stocks are able to inflate themselves to stunning levels, leaving value stocks in their dust. So far this year, however, amidst a market that is venturing into above-average valuations, value investors have been well rewarded. US small cap value stocks have outperformed small cap growth year-to-date through September 30 by +8.01% and US large cap value stocks have outperformed their growth brethren by +4.00%.<sup>1</sup>

These results manifest themselves in our clients' third quarter statements, and while we are pleased by the results so far this year we are not resting on our laurels. Stock market gains have led some portfolios' equity allocations to drift higher. We will continue to rebalance portfolios as needed to maintain each of your appropriate levels of risk. Aside from rebalancing and ensuring risk levels in portfolios remain aligned with long terms plans, however, we will remain steadfast in our investment philosophy. As for that Aloha shirt, colder weather has dictated it return to my attic, at least for now.

Sincerely,  
Mark J. Anderson, CFA  
Director of Investments

<sup>1</sup> YTD (1/1/2016-9/30/2016) Russell 2000 Value total return +15.49%; Russell 2000 Growth total return +7.48%; Russell 1000 Value total return +10.00%; Russell 1000 Growth total return +6.00%. Russell U.S. Index Series Monthly Review, September 2016. [http://www.ftse.com/analytics/publications/russell\\_us](http://www.ftse.com/analytics/publications/russell_us)

## Post Script: Political Update

As the political races reach a fever pitch and election day closes in, politics (and any implications for markets) are top of mind for many investors. For detail on our perspective, see our recent blog "Presidential Elections and the Stock Market" available on our website.

## New Flourish Client Portal & Mobile App!



We have received great feedback from clients about using the Flourish Client Portal to access quarterly investment statements and investment updates. If you have not established this portal and would like to, please contact our team for a guide that will walk you through the steps to gain access to your Flourish Client Portal. We are happy to walk through the steps with you via phone or in person.

In addition to the Flourish Client Portal, we are excited to announce the new Flourish Wealth Management app for your phone and/or tablet! This will allow you to access all of the same helpful features of the Flourish Client Portal from the convenience of your mobile device. The app is free and available to download on any app store.