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WEALTH MANAGEMENT FOR A FLOURISHING RETIREMENT

Trade War Update

December 7, 2018

For about a week after Thanksgiving, market volatility was like the rest of us – sleepy and stuffed with turkey. The markets themselves took advantage, with the S&P 500, Nasdaq, and Dow all posting their biggest weekly gains in years.[1] And on Monday, after President Trump announced a tariff "ceasefire" between the U.S. and China, the Dow rose 288 points.[2]

Just think of it as the calm before the storm.

On Tuesday, the Dow fell like an anvil in a Warner Bros. cartoon, dropping 799 points.[3] Wednesday provided a brief respite, with the markets closed in honor of President George H.W. Bush's passing. But on Thursday, gravity kicked in again. The Dow dived as much as 785 points early in the day, and the other major indexes slid, too.[4]

For years, investors watched happily as the markets rose higher and higher. But the last few months have been turbulent. It's a reminder that volatility is simply an unfortunate fact of life. And like a thunderstorm on a day you hoped would be sunny, or road construction when you're most in a hurry, volatility never comes at a good time.

Make no mistake, volatility can be frustrating – and even a bit scary. After all, when we talk about your investments, your portfolio, we're not talking about some abstract concept. This is *your* money. Your retirement savings. Your hard-earned future. However, in my experience, the more we understand *why* something is the way that it is, the less scary it becomes. So, let's examine the cause behind this week's volatility before discussing what to do about it.

No New Tariffs – But Plenty of New Tensions

In this case, the cause of this week's volatility is relatively simple: Trade.

You know, of course, that the United States and China have been engaged in a trade war for some time now. Each nation has levied billions in tariffs on the other's products – and whenever a new salvo of tariffs is launched, the markets react by pulling back.

It's not hard to understand why. Tariffs – essentially a tax on imported goods and services – often hurt businesses. That's because higher tariffs often lead to higher prices, which in turn lead to higher expenses. For example, if companies must pay more for the raw materials they need, that can significantly eat into their own profits. This, in turn, can lead to shipping delays, supply chain problems, higher prices for consumers, a resulting loss of business, you name it. All *these* issues, of course, are then reflected in the stock prices of the various companies affected.

But this week's volatility wasn't caused by a new spate of tariffs. In fact, on Saturday, December 1, the U.S. and China actually agreed to a "ceasefire" on any new tariffs. President Trump agreed to maintain tariff levels at their current level and *not* raise them to 25% as he had previously promised. China meanwhile, promised to purchase a "substantial" amount of agricultural goods from the U.S.[5]

The markets love news like this, and promptly threw a party. As mentioned, the Dow rose 288 points on Monday largely in celebration.

But as so often happens after a party, the markets woke up on Tuesday with a hangover. Both the U.S. and China pumped the breaks, suggesting that discussions to end the trade war could certainly fail.

And then investors remembered that there are still *billions* in tariffs already in place that are having a marked effect on many companies and industries.

The Dow fell almost 800 points.[3]

Trade war fears worsened on Thursday because someone got arrested. It sounds bizarre, but it's true. Canadian law enforcement, by request of the United States, arrested a top executive at one of China's biggest technology companies. It's still unclear why, but the result is what we care about. In this case, the result was another major market drop. Why do the markets care? Because the arrest was a stark reminder of the tensions that still exist between the U.S. and China – tensions that will probably be exacerbated by this development.

But there's another factor in play.

I said before that the markets have risen higher and higher over the years, but that the last few months have been turbulent. You've probably noticed in the news that pundits are raising the question more and more: When will the next bear market return? When will the next recession hit? When will the bull market officially be over?

When we're not careful, we as human beings often transform our fears into a self-fulfilling prophecy. Right now, there seems to be a kind of fragility to the markets. People have been *expecting* volatility for months now, so it's easy to interpret every bit of news as bad. Whether that's right or wrong is something each person must decide for themselves. But it's a fact that the only thing fear can create is more fear.

Fear is a virus – it infects, and it replicates. And the more volatile things become, the more volatility starts to look like a symptom of that virus.

Okay. So that's *why* volatility struck so hard this week. The question is, what do we do about it?

A few things:

First, we need to remember that volatility is *normal.* In this case, we knew the trade war was far from over. We knew that at some point, it would cause the markets to collectively shudder.

Knowing that it's normal doesn't make volatility fun. Again, who enjoys looking at the news and wondering what's going to happen to their retirement savings?

But it should make volatility a little less scary.

The second thing to do is remember that *we have a long-term plan in place* – a plan in which volatility is already factored in. We've laid out a specific path to those goals – and the plan *assumes* there will be bumps, setbacks, and even a wrong turn or two along that path. It really is like driving a car, if you think about it. Smart drivers give themselves extra time to reach their destination, so when they hit the inevitable detour or traffic jam, it doesn't ruin their journey.

That's what we've tried to do with your finances. Volatility – even prolonged volatility – is a detour, not a derailment.

The third thing to remember is that my team and I are *constantly* monitoring your portfolio. We're not forecasters, trying to predict which way the markets will go next, because that's a fool's errand. Drivers who do that often end up going in circles. Instead, we watch your progress in real time, always asking if *what's happening now* necessitates a course correction or not. Day-to-day swings in the markets rarely do, just like a pothole in the street doesn't make you choose a different road. But should the road ever get *too* bumpy – bumpier than your portfolio can handle – we're prepared to make changes.

Which brings us to the final thing you should do: Enjoy your holidays! Spend time with family. Go caroling. Argue about where to place the holiday decorations this year. Do all the things you'd *rather* be doing this time of year.

There's really nothing *good* to say about the markets right now, or about the trade war. But here's what I can say: Don't stress about it.

That's my job.

My team and I will keep monitoring the markets – and your portfolio – every single day. If we need to make any changes, we will let you know immediately. In the meantime, you concentrate on what really matters. Family. Friends. Spreading goodwill and cheer. And remember that if you have any questions or concerns, that's why we're here.

Wishing you a wonderful holiday season!

-Steve Robbins, CFP®

Sources

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