A Historic Day for the Country and a Historic Year for the Markets

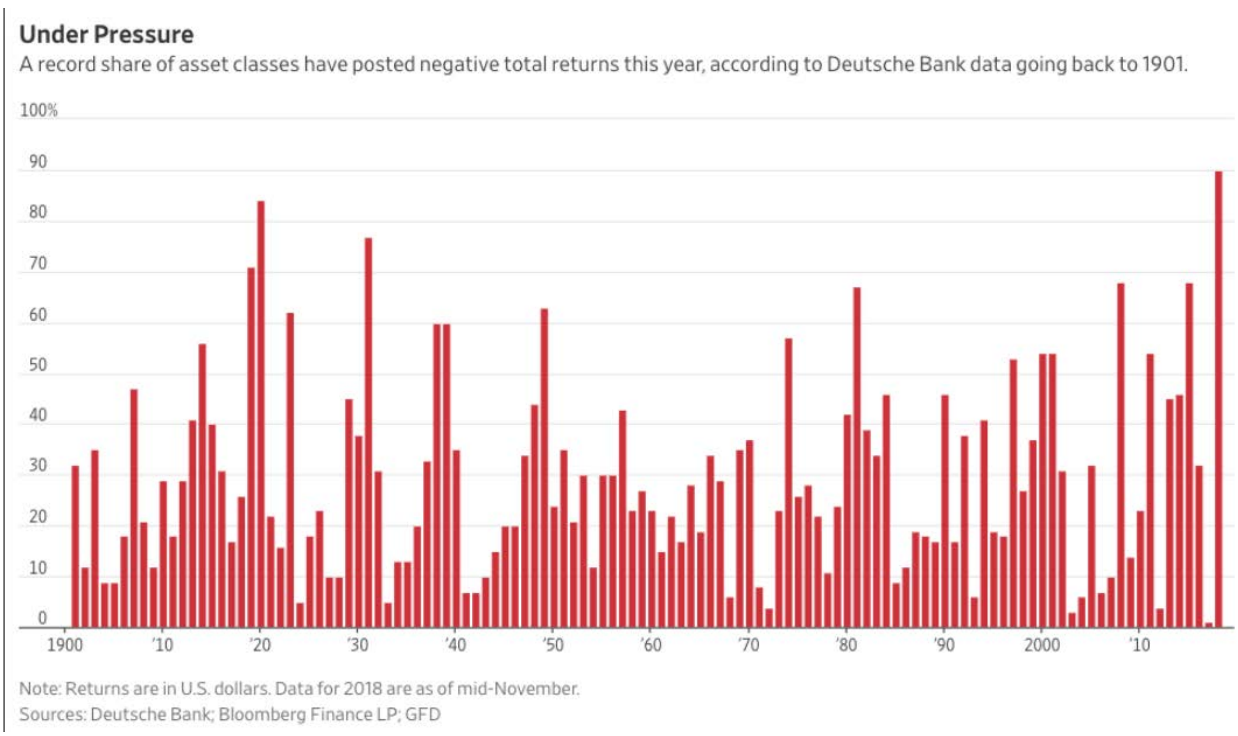
By Matt Topley

Yesterday was a historic day for the markets and our country. For only the sixth time since 1969, the U.S. stock exchanges closed for non-market related events. A national day of mourning for our nation's 41st President, the late George H.W. Bush closed markets and government offices. It was as much a celebration of patriotism as it was a memorial. As you can see, the stock market is synonymous with being American--we don't close for any minor reasons. Gerald Ford's death, Hurricane Sandy, 9/11, the blackout of 1977, and the 1969 Apollo landing on the moon were the only other occasions that rivaled yesterday.

Back in 2001, I vividly remember showing up at my former firm a few days after the 9/11 terrorist attacks. Even though the market was closed, I sourced stacks of disturbing research about Al Qaeda, Osama Bin Laden and other terrorists. Rather than fear, I felt unbelievable patriotic pride as the market re-opened quickly after the massive devastation in lower Manhattan just down the street from the stock exchanges.

Here we are 18 years later. The equity markets are 500-percent higher than they were in 2001. We're in the middle of a historic year, even though it doesn't feel particularly unique. Looking closer, you'll see that for the first time since 1972 no U.S. asset class has posted a positive return of more than 5 percent for the year and a record share of asset classes have posted negative returns according to records going back to 1901.

Percentage of Asset Classes Posting Negative Returns in 2018



On top of these sobering statistics, we may see both U.S. stocks and U.S. bonds in negative territory in the same year—something that hasn't occurred in a quarter of a century.

If you're under age 55, chances are you haven't seen a red (negative) column in your account statement before when looking at your bond holdings. With so much attention focused on a possible end to the long-running bull market in stocks, it's amazing how few pundits are talking about the likely end to the 35-year bull market in bonds. Your diversified portfolio does not feel good this year, but read my lips— I'm convinced this is NOT the time to get emotional!

Take a look at Blackrock's global snapshot from a couple weeks ago (see below), it does not look much different than it does today. Scroll down the YTD column and you will see nothing but negative numbers.

Global snapshot

Weekly and 12-month performance of selected assets

Equities	Week	YTD	12 Months	Div. Yield
U.S. Large Caps	-3.8%	-1.5%	1.4%	2.1%
U.S. Small Caps	-2.5%	-2.0%	-0.6%	1.4%
Non-U.S.World	-1.3%	-11.4%	-9.9%	3.5%
Non-U.S.Developed	-1.1%	-10.3%	-8.5%	3.7%
Japan	-0.1%	-8.0%	-7.2%	2.4%
Emerging	-1.7%	-14.5%	-13.9%	3.1%
Asia ex-Japan	-1.4%	-14.5%	-14.6%	3.0%

Bonds	Week	YTD	12 Months	Yield
U.S. Treasuries	0.1%	-1.4%	-1.6%	3.0%
U.S. TIPS	-0.4%	-2.1%	-1.7%	3.2%
U.S. Investment Grade	0.0%	-3.7%	-3.2%	4.3%
U.S. High Yield	-0.3%	-0.4%	0.1%	7.3%
U.S. Municipals	0.2%	-0.5%	0.1%	3.0%
Non-U.S. Developed	-0.1%	-4.1%	-3.7%	1.0%
Emerging Market $ Bonds	-0.7%	-6.0%	-5.3%	7.0%

Commodities	Week	YTD	12 Months	Level
Brent Crude Oil	-11.9%	-12.1%	-7.5%	$58.80
Gold	0.0%	-6.1%	-5.3%	$1,223
Copper	0.0%	-14.4%	-10.9%	$6,207

Currencies	Week	YTD	12 Months	Level
Euro/USD	-0.7%	-5.6%	-4.3%	1.13
USD/Yen	0.1%	0.2%	1.6%	112.96
Pound/USD	-0.2%	-5.2%	-3.7%	1.28

Source: Bloomberg. As of November 23, 2018

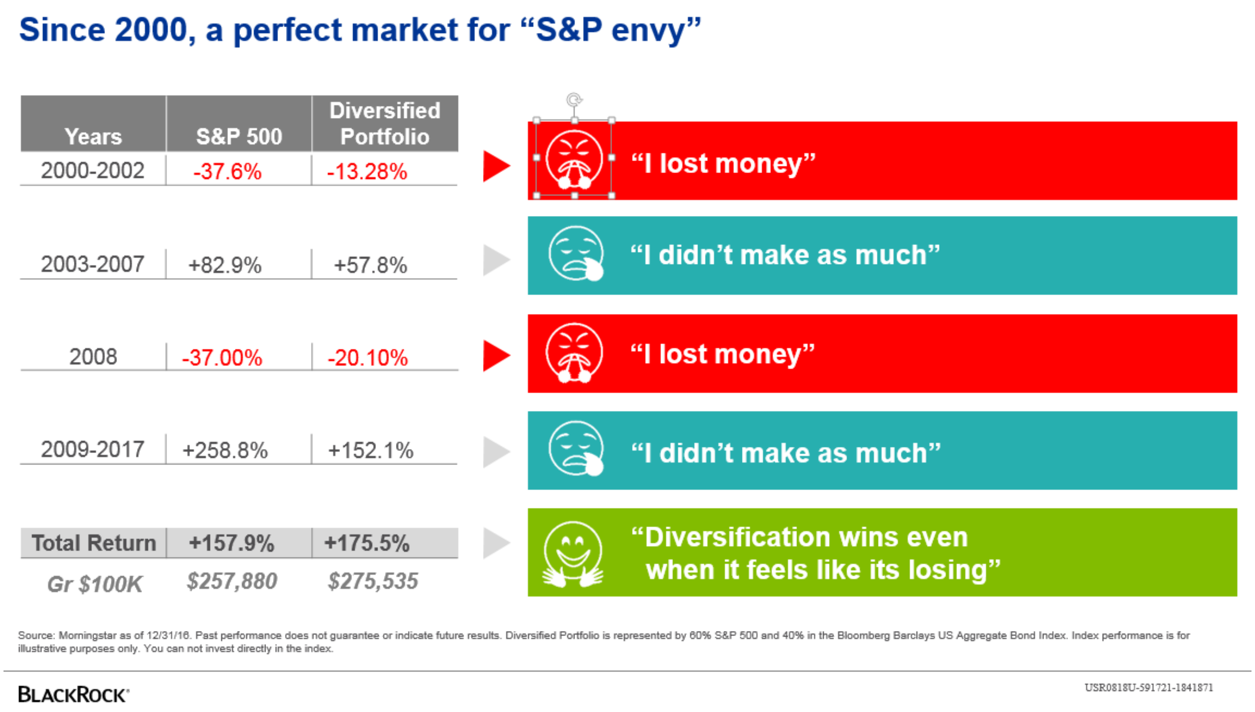
Notes: Weekly data through Friday. Equity and bond performance are measured in total index returns in U.S. dollars. U.S. large caps are represented by the S&P 500 Index; U.S. small caps are represented by the Russell 2000 Index; Non-U.S. world equity by the MSCI ACWI ex U.S.; non-U.S. developed equity by the MSCI EAFE Index; Japan, Emerging and Asia ex-Japan by their respective MSCI Indexes; U.S. Treasuries by the Bloomberg Barclays U.S. Treasury Index; U.S. TIPS by the U.S. Treasury Inflation Notes Total Return Index; U.S. investment grade by the Bloomberg Barclays U.S. Corporate Index; U.S. high yield by the Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Capped Index; U.S. municipals by the Bloomberg Barclays Municipal Bond Index; non-U.S. developed bonds by the Bloomberg Barclays Global Aggregate ex USD; and emerging market $ bonds by the JP Morgan EMBI Global Diversified Index. Brent crude oil prices are in U.S. dollars per barrel, gold prices are in U.S. dollar per troy ounce and copper prices are in U.S. dollar per metric ton. The Euro/USD level is represented by U.S. dollar per euro, USD/JPY by yen per U.S. dollar and Pound/USD by U.S. dollar per pound. Index performance is shown for illustrative purposes only. It is not possible to invest directly in an index. Past performance is not indicative of future results.

Source

The data above is historical. Despite the downward trend, you can't get a parking space at the mall and the restaurants are always packed. If you ask me, this is hardly a sign of a recession or a bear market. It would appear the public markets are simply in pause mode.

The knee-jerk reaction is to sell your losers and buy what's been working--i.e. the S&P 500 index--but that index is trading at a record high valuation compared to almost every other asset class : Small cap value, international developed, emerging markets and commodities. Diversified portfolios work so well over the long-term because they are painful to hold in the short-term.

Since 2000, a perfect market for "S&P envy," global edition: Many investors are frustrated when they compare their portfolio to the US stock market. This frustration is short-sighted. A diversified, global portfolio (40% US stocks, 15% int'l stocks, 5% small cap stocks, 30% US bonds, 10% HY bonds) has outperformed the S&P 500 since the start of 2000. Owning a diversified portfolio is emotionally difficult for investors. You trail the S&P 500 in a bull market, and you still lose money in a bear market. A diversified portfolio feels like losing even when it's winning.



Conclusion

Diversified portfolios have served the American public well including during the dot-com crash and 9/11. As I've long argued, [investing is not an IQ game, but a psychology game](). Today, some asset classes in a diversified portfolio are trading at 25-year highs relative to other asset classes, i.e. emerging markets, and some are trading at 25 year lows relative to other asset classes. It seems investors don't want to sell what's cheap and buy what's expensive in an emotional outburst. More to come in my year end letter.

FORTIS WEALTH

About the Author

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Author of the [VIEW FROM THE TOP BLOG](http://matttopley.com) (http://matttopley.com)

Matt has a unique, global perspective on investing that he gained from nearly two decades on the trading desk and from studying abroad. While doing his graduate work, he had the opportunity to explore the world, studying in Shanghai, Beijing, Toronto and Prague. Matt's desire to make a positive difference, both in his clients' lives and in the community, is evident both in and outside the office. In his free time, Matt is dedicated to many charitable organizations, devoting time and expertise, with a focus on helping inner-city schools and first-generation college students.

Matt sits on the Fortis Executive Committee and serves as Chair of the Fortis Investment Committee, overseeing the delivery of investment advice and strategy for our clients. A voracious reader and compassionate educator, he has the ability to interpret complex technical financial information and simplify it for the benefit of each of his clients. Matt directs the content of our Fortis INSIGHTS blog, an extension of a daily industry research newsletter he authors, helping our clients and teammates stay informed about market trends.

Matt holds a Bachelor of Arts from Holy Family University, an MBA from LaSalle University and a Master of Arts in Organizational Leadership from the University of Pennsylvania. He serves on the Board and is Chairman of the Endowment Committee for BLOCS and Holy Family University.

When asked what makes the Fortis investment philosophy stand apart from other wealth management firms, Matt shared:

"Our goal is to provide clients with an unbiased roadmap for investing, minimizing emotional influences and focusing on the factors that they — and we, together — can control."

About FORTIS WEALTH

For over 100 years, Fortis Wealth has teamed with families to help protect, manage and grow their wealth.

As a true family office, our mission is to enhance our client's return on life. We help our clients achieve what is important to them by bringing clarity to financial decisions and by helping them articulate and achieve their life goals.

Focusing on more than just investable assets, we view our families from a global perspective and understand their entire financial world. This approach positions Fortis to add significant, measurable value in the areas of accounting, tax, estate planning, wealth management and philanthropy.

Managing wealth is easier with a team of experienced, knowledgeable, independent professionals. Fortis has earned the role of an entrusted advisor and is a valued resource for all family financial decisions.

If you would like to receive a copy of our Form ADV Part 2a or any other information, please contact Matt Topley at mtopley@fortis-wealth.com, or call (610) 313-0910.

Additional information about Fortis Wealth is also available on the SEC's website at

www.adviserinfo.sec.gov.