viewpoint

MARSHALL & SULLIVAN

Marshall & Sullivan, Inc. / Registered Investment Advisor

Spring 2018 newsletter

# Volatility is back in the Stock Market

It feels as if the whole investment world changed when the calender flipped from 2017 to 2018. Volitality is back!! In 2017, there were only 10 days when the S&P500 moved more than 1% in any direction. By the middle of February 2018, it had already matched that total. Not only did the market have more 1% moves, it also had two corrections (i.e. a 10% drop from the high) – something not seen in 2017.

With the word, "correction" being mentioned, you would think that the market had giving up most of its 2017 return, but it has not. Major averages ran up in January before correcting in February. The pattern was repeated in April. The S&P500 was only down 1.17%, its first down quarter since the 3rd quarter of 2015. Yes, markets are down from their highs but barely for the year 2018.

Another change is the amount of trading in the accounts Marshall & Sullivan manages. During 2017, we did very little trading unless clients needed funds or deposited money. During the first quarter of 2018, we focused on trimming positions and asset classes that had become over-weighted during the 2017 market run-up. We also sold a company that had a buy-out offer. The cash from the sales was reallocated to underweighted asset classes. This trading activity is further evidence of our strict buy and sell discipline.

Marshall & Sullivan still believes the stock market will end the year higher than it started. The reason is simple, the average company in the S&P500 is projected to grow its earnings over 17% this year. The market is close to fairly valued with a P/E of 16. If earnings go up so should the market. Could the market go lower before it goes up? Of course it could. If emotions cause great companies to drop in value it will give us an opportunity to use the cash in our portfolios to buy new positions at a good price.

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## Change to Money Market

Since the 2008 banking crisis, the SEC has been researching money market funds and their potential risk. In July 2014, the Securities and Exchange Commission (SEC) made amendments to the rules that govern money market funds. These rules are now being implemented. You might have received a letter from your custodian talking about adjustments to your account because of these rule changes.

The amended money market rules may affect the way your account is managed now and in the future. As the changes are implemented, your cash in your account will automatically be invested in a bank sweep account instead of a money market. The positive news is that that bank sweep accounts will have FDIC insurance of $250,000 per account or $500,000 per custodian. The bad news; bank sweep accounts are currently earning .10%.

In order to increase the earnings on your cash, Marshall & Sullivan will, from time to time, purchase a government money market fund with the cash accumulated in accounts. In today's market this will increase your return by over 1%. You will receive a confirmation every time we buy and/or sell a money market fund. There is NO fee for this. Please allow two business days prior to when you require funds from your accounts just in case we need to raise funds.

The other item you will notice is that your custodial statements and website will not match our reports. Your custodian will show the money market as a mutual fund, while ours will include the amount as cash. To find the actual amount of cash and cash-like investments on your custodian statements and/or websites, simply add the cash to the government money market fund total. Or you can contact us.