

NOBLE WEALTH ADVISORS

OF JANNEY MONTGOMERY SCOTT LLC

PERSPECTIVE BY CHARLES

***Oh, you know we've got to find a way
To bring some understanding here today***

Marvin Gaye from his landmark album and single What's Going On (1971)

By now I am sure you have read one or all of the following “reasons” why share prices are ten to fifteen percent lower now than they were just three short weeks ago. Instability in the Middle East, the Saudi orchestrated drop in oil prices, China’s slowing economy and bursting stock market bubble, currency wars among nations trying to price their output competitively, even the movie of Michael Lewis’ book “The Big Short.” Taken individually, each of these factors is easy to understand and each is important but all have been known for some time and do not necessarily explain why the sudden decline in securities prices now. As you might imagine, as a financial advisor I receive a daily deluge of financial data and on any given day the information can be overwhelmingly positive or negative and yet most days, trading direction is not dramatic.

There is a tremendous amount of liquidity or money in circulation around the globe searching for the best return and often managed, at least in the short term by highly complex computer driven financial models. The people who build these models, intelligent as they may be (notice I didn’t say wise), have the same bias in decision making as everyone else. We humans are communal beings and so our opinion forming can from time to time default to the instinct of the herd. Individual investors see price movement repeated day after day and begin to imagine that it will continue. If the movement is down as it has been recently, we can start to question everything and if sufficiently frightened, begin act with the herd. We think someone knows something we don’t and that there may be safety in the herd. There is not, there is only additional risk: think riots and stampedes at sporting events.

Price volatility is just that, price volatility. It is the price we pay for superior long term results from our investments. The best time to sell a good investment according to Warren Buffett is... almost never. Buffett has held this philosophy since he began his career; it is how he became and remains rich.

If the value of your home declines does that mean you should sell it? I would suggest that if the value declines sufficiently and you have the means, you might instead look to buy the lot or unit next door.

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What appears to be happening now is a bit of a panic. There has been little volatility for the past 6 years so investors forget it can happen. Is it predictable? As with the economists who have predicted eight of the last three recessions, it is not, certainly not with any regularity or dependability.

So what should we do about it? First, assess our immediate cash needs, then assess our asset allocation and next our individual holdings. In a panic security prices generally decline across the board, so we need to ask ourselves, of which entities do we most wish to remain owners for the long term? Has there been a material change in the business or entity and is that change already reflected or even exaggerated in the current price? If we decide to divest an investment we need to keep in mind that most of our investments pay either interest or dividends, so we must ask ourselves, if we sell, are we willing to forgo those income payments?

If we own shares of a company or fund, it should mean that we have confidence in both the business and our managers, so why, purely based on price decline, should we second guess our decision? Aren't our managers even more likely than we to know what is happening in their business and industry and already be taking corrective actions?

Volatility is not risk, unless we make it so by emotional or irrational action. Volatility is the norm, not the exception when owning any investment which returns more than the risk free rate, which is currently less than one percent per year. If our financial house is in order, volatility is simply noise unless it becomes overdone and then it is opportunity.

As always, please let me or my team know if you would like to discuss any of the above, your financial plan or your portfolio. Thank you for your continued trust and confidence.

Charles