April 2017

Resources Management Corp

MARKET COMMENTARY

A RITE OF SPRING

"With so many trees in the city, you could see the spring coming each day until a night of warm wind would bring it suddenly in one morning. Sometimes the heavy cold rains would beat it back so that it would seem that it would never come…In those days, though, the spring always came finally but it was frightening that it had nearly failed."

– Ernest Hemingway, A Moveable Feast

Each spring the daffodils arrive, rising from their long dark winter slumber. No matter how cold or stormy a winter is, their bulbs will eventually break the soil's surface. The timing varies upon the climate with a February arrival in Southern California, and an early April arrival in New England. Some years, the revival is stopped right in its tracks by a late season blizzard or frost which can kill a freshly minted bud and wilt the stem. However, like a phoenix rising out of the ashes, the daffodils will almost always bloom again the following spring if one is patient.

Through the darkest of market downturns like the Crash of 1929, the 2000 Tech Bubble and the Financial Crisis of 2008, the US stock market has prevailed. While a flower might have an annual cycle of rebirth and growth, the market's cycle could take years, sometimes longer than a decade, often hitting some roadblocks along the way, like a late spring snow storm. But just like a golden forest of daffodils, the US stock market has proven itself resilient one time after another fighting back from its downturns and rising again, especially over longer time periods.

While the market can be volatile, this volatility is lessened over long time periods. A short-term perspective can feel like riding a roller coaster without a seat belt on. In looking at a chart of one year returns from 1926-2016, the market averaged an annualized return of 10% (source: Ibbotson Large Company Stock Index which is comprised of the S&P 90 from 1926-1956 and the S&P 500 from 1957-present), despite being negative 27% of the years. In addition, the market's return often strayed significantly from this average, only coming within two percent of this average five times. Extending it out a bit, and looking at five year rolling returns, they have been negative only 14% of the time. Using ten year rolling returns, the markets have been negative a mere 5% of the time; and using fifteen year rolling returns, there are no negative periods! Thus proving that over longer time periods, the volatility and downside risks diminish.

Corporate Center West
433 South Main Street, Suite 200
West Hartford, CT 06110
860-561-1245 phone
860-561-1310 fax

866-383-4574 toll free
www.resourcesmanagementcorp.com

P.O. Box 348
9 Bryan Plaza
Washington Depot, CT 06794
860-868-1830 phone
860-868-1834 fax

As we are bombarded with 24/7 news from the gauntlet of news sources, it is quite understandable how so many investors are nervous. From international to domestic issues, from North Korean missiles to extreme partisanship at the federal level, there is no shortage of potential headwinds to the market. But when a patient investor has a long-term investment horizon, time is often on his or her side, and over time the market has proven itself over and over again. Couple this philosophy with buying and holding quality companies with long-term growth prospects, repeatable and proven business models, and proven management teams, a well-built, diversified portfolio should not only prevail, but grow over time when given time to blossom.

**If you would prefer to receive future Market Commentaries electronically,
send an email to kitty@resmgtcorp.com.**

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