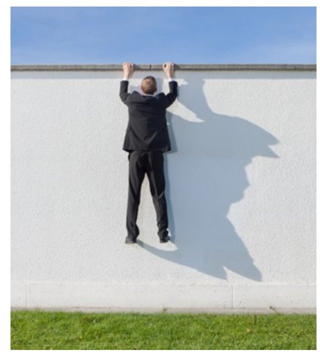
OCTOBER 2018

Resources Management Corp

MARKET COMMENTARY

CLIMBING A WALL OF WORRY

We are currently operating in one of the most doubted bull markets of all time. Despite the strong returns that the market has delivered relatively consistently since March 2009, many commentators have perpetually predicted a severe correction that has yet to materialize. As can be seen in the attached chart, many respected investors and pundits, alike, have advised market participants to sell stocks in preparation for a crash. On November 13, 2012, for example, Marc Faber suggested that investors “prepare for massive market meltdown.” Since that date, the S&P 500 has produced a total return (including dividends) of roughly 127% as of August 31, 2018. While this is just one example, all of the other predictions were followed by a similar return profile.



This graph strikes us as especially instructive because many of the individuals being quoted are highly intelligent and experienced investors, proving how difficult it is to correctly “time the market.” Despite today’s strong economic environment, however, it is inevitable that predictions of a market correction will eventually be correct. Given how difficult (impossible) it is to consistently time the market in a way that would allow for large profitable moves in and out of securities entirely, we find it far more prudent to construct portfolios that can successfully sustain and accomplish objectives through entire market cycles.

At every point in time there is some level of uncertainty that generates conflicting views of what the path forward will be. Whether it be the state of the economy, geopolitical issues or company specific developments, price discovery occurs on stock exchanges as a result of divergent opinions of what the future holds. While we certainly evaluate and form views on the market environment, we make no attempt to time seismic shifts in sentiment or performance. This is not to say that we do not hold views on valuation in the broader market or the general direction of the economy, but we have found that disciplined adherence to established asset allocations and strategies that are based on clearly defined objectives yields the most positive outcomes over the long term. Additionally, our approach of selecting individual securities (as opposed to holding the entire market through index funds) allows us to avoid targeted market segments that we view as overvalued and capitalize on opportunities that we assess as undervalued.

Rather than reacting to predictions of large market pullbacks (whether or not we agree with them), we see these as signs of an active and healthy market in which efficiency can exist. Markets that lack dissent actually concern us more as bubbles become far more likely in that case. The recent market turbulence is a prime example of the kind of healthy reset that reduces the probability of “irrational exuberance” taking hold. It is inevitable that we will enter a bear market at some point in the future, but we aim to construct our portfolios such that they will be able to weather the correction and continue to achieve their objectives over the long term. While the most recent financial crisis (and concurrent market crash) created severe short-term losses, disciplined investors that maintained their asset allocations captured the strong subsequent recovery and were generally able to achieve the established objectives over the course of the full market cycle.

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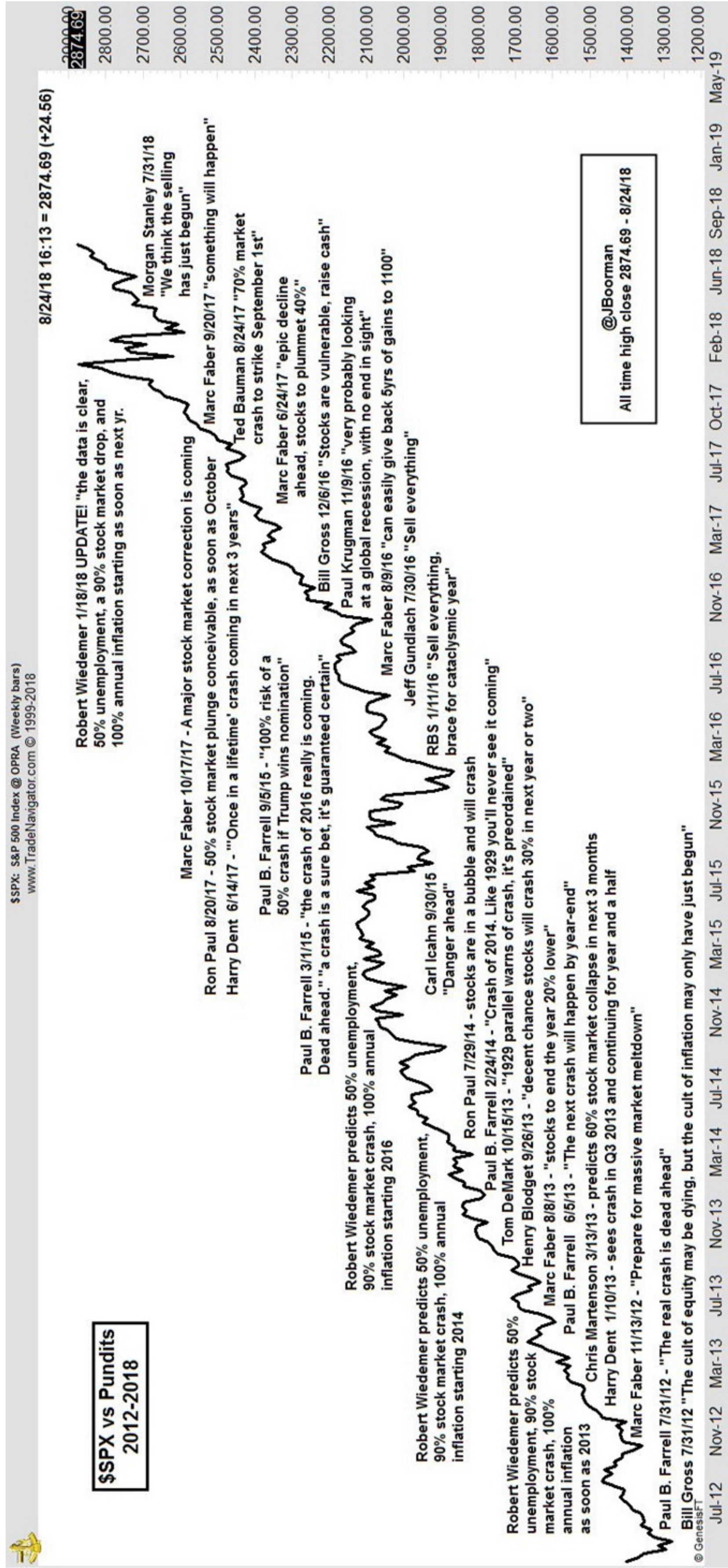

Corporate Center West
433 South Main Street, Suite 200
West Hartford, CT 06110
860-561-1245 phone
860-561-1310 fax

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

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PS…

October is shaping up to be a tumultuous month. On pace to be the worst performing month since February 2009 (as of the time of writing), this kind of volatility is neither unexpected nor a cause for long term concern. Since this bull market began in March 2009, positive returns have been achieved relatively consistently over a long period of time (almost 10 years). This has not been unwarranted given the economic growth the United States has seen and the exceptionally low valuations that existed at the beginning, however, it would be unreasonable to expect the market to continue in a straight-line upwards forever. So, what does this mean for our approach here at RMC? It means business as usual. As we try to communicate in all of our market commentaries, we aim to construct portfolios that will achieve client objectives across full market cycles. As such, we will continue to adhere to the asset allocations that have been established with each of our clients, and remain on the lookout for opportunities to invest in excellent companies at attractive valuations. Rather than focusing on short-term fluctuations in prices, we continuously review the underlying fundamentals of the businesses that we invest in. Over the long-term we are confident in the outlook for business in the United States, and our investment philosophy does not shift with daily market tides. Ben Graham said it best when he pointed out that "in the short run, the market is a voting machine but in the long run, it is a weighing machine."