Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – APRIL 2, 2018

The exception proves the rule. ~ Cicero 56 B.C. (in various forms)

If an exception exists, we must admit there is a rule from which to except in the first place! This idea was first promulgated as a legal concept during that volatile period at the end of the Roman Republic. Our Ninth Amendment to the Constitution is based entirely on suppressing this legal principle by making it clear that the people retained many more rights than those enumerated. Perhaps clearer examples of Cicero's concept in today's world are in order. A sign might read *No Parking on Sunday*. This exception implies the unstated rule; that parking is permitted every other day of the week. Likewise, using a rocket to break into orbit proves that gravity is a powerful force that must be overcome.

In our modern market, the period from November 9, 2016 to January 31, 2018 *was* the exception that proves the rule. What was the exception, you may ask? Well, volatility disappeared and stocks consistently moved in one positive direction.

And if negligible volatility and never-ending gains are the exception in this case, what would be the rule? Our clients with many years of experience under their belts know this answer in their sleep. *Markets for securities are inherently volatile and capricious.* Some days, weeks, months they go up. Others down.

In the investing world, a corollary to Cicero's pronouncement is the idea of mean reversion. Think of the exception in this case as an outlying return (either very high, or very low). The rule then would be the mean, the long term average return. After a period of exceptionally high returns, one should expect that a period of lower returns must follow so that the mean or the rule is preserved. None other than John Bogle has described the concept of mean reversion as the *iron rule of the financial markets*. And financial lords such as Robert Shiller and Jeremy Siegel, among others, have consistently espoused the gravitational pull of the mean with regard to prices.

In everyday language, folks have found many colloquial ways of stating this highly mathematical concept. Here are just two off the top of our head.

What goes up, must come down. Trees don't grow to the sky.

So, February 2018 was particularly brutal. March proved volatile, but less harrowing. What about April and beyond? To answer this critical question, let's look at the nearby chart.

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Source: Charles Schwab. Bloomberg data as of 3/27/2018. Past performance is no indication of future results.

In it, we see that since 1979 the average bear markets and benign market corrections have begun with volatility eerily similar to what we've just experienced. Then, after bouncing around, a new trend was established. In the case of the blue line, a bull market began anew. In the case of the red, the bear emerged from hibernation. The green line shows what has gone on most recently. Unfortunately, past prices give no indication as to which path we will likely take for the remainder of 2018.

For more accurate predictions we have to turn to fundamentals. As we've stated, earnings and rates remain as tailwinds and supportive of stock prices. However, if earnings and company forecasting disappoint as results come in this month, or if the Federal Reserve becomes more aggressive with rates, the winds turn unfavorable and prices could decline.

In short, we continue to find reason for optimism for long term returns. However, we further acknowledge mean reversion is the norm. *It is the rule!* Risks for the next recession and therefore bear market are building as we speak (we always sow the seeds for our destruction along with those for our nourishment). As these risks build throughout the year, we may find reason to become more cautious. Stay tuned.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely

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