



How to react to stock market swings

From the opinion of a long-term investor

By Arnold W. Beevers, CFP®, CFA®
RCB Bank Trust Wealth Advisor

Recent news about dramatic declines in the Dow Jones have been front and center lately. While the Dow is often first quoted on the news, it is not a particularly good representation of the U.S. stock market.

It is just an index of 30 companies.

Also, the Dow is price-weighted, which means the companies with the highest stock price carry the most weight. The five companies that currently carry the greatest weight in the Dow are Boeing, Goldman Sachs, 3M, United Health Group, and Home Depot. However, none of these companies crack the top ten when looking at the largest companies in the U.S. by market capitalization.

Alternatively, the S&P 500 is an index of about 500 companies, making it a much broader barometer of the U.S. stock market. Moreover, it is market-weighted, so the largest companies by market capitalization carry the greatest weight.

Headline vs. Reality

Headline: On February 5, 2018, the Dow experienced the largest point drop in history.

Reality: On February 5, 2018, the S&P 500 declined 4.10 percent, which ranks as only the 39th worst in the last 40 years.

Why has the stock market declined?

Believe it or not, the recent declines were prompted by good news. January payroll reports show 200,000 workers were added to U.S. payrolls and, more importantly, average hourly wages increased 2.9 percent from January 2017. **This was the highest level of year-over-year wage growth since June 2009.**

In anticipation of a strong jobs report and a pick-up in wage inflation, bond markets drove yields on the benchmark 10-Year U.S. Treasury bond sharply higher from a closing level of 2.63 percent on Thursday, January 25 to an intra-day high of 2.88 percent on Monday, February 6.

This sudden rise in market interest rates spooked equity investors in several ways. It could indicate both a faster pace of Fed rate hikes to keep up with inflation and an increase in borrowing costs for U.S. corporations.

What should I do about it?

I don't get emotional about stock market swings. Stock market swings are sometimes irrational. Look to the fundamentals instead.

In my view, nothing has really changed in the last week from a fundamental or economic perspective.

We believe the cyclical backdrop for stocks remains positive given synchronized global growth, rising corporate profits and relatively easy monetary conditions compared to history in the U.S. and abroad.

At RCB Bank Trust, we are conservative, long-term investors.

We don't try to time the market and we don't overreact to headlines and short-term volatility. That being said, this is a great time to gut-check your risk tolerance and make sure your asset allocation is right.

We offer free portfolio reviews at no cost, no obligation. We are happy to take a look at your current portfolio and offer a second opinion to ensure you're getting the most out of your investments. Give us a call.

Contact us.

918.342.7100
Eastern Oklahoma

580.718.2783
Central/Western Oklahoma

620.221.5078
Southern Kansas

316.247.7699
Central/Northern Kansas

Investment products are Not insured by the FDIC or any government agency, Not a deposit, Not a bank guarantee, subject to risks and may lose value. Opinions expressed above are the personal opinions of the author and meant for generic illustration purposes only. This information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Investments mentioned may not be suitable for all investors. The material is general in nature. Past performance may not be indicative of future results.