

# Lessons Reviewed in the Month of October

November 2014

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October brings up all kinds of images: cooler weather, fall colors, football, and of course, Halloween.

For investors, October has a ghoulish reputation. Data shows the month that conjures images of ghosts, goblins and scary things has been unjustly maligned in the investment world. Historically October has finished higher and September is generally the worst performing month of the year.

### A Disciplined Approach

It's impossible to effectively time the market. So let me defer to baseball legend Casey Stengel who once said, "Never make predictions, especially about the future."

I've always emphasized the importance of stripping emotion out of the investment process. You must strive to stick with the investment plan that we have thoughtfully crafted to meet your personal goals. Understanding that market corrections can be psychologically jarring, I am thinking we might see a more significant drop before eventually returning to new highs – maybe something on the order of 12-15%.

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**"Staying focused on the long term picture takes perspective."**

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There's nothing like the cleansing feeling of a market selloff through the year. It eliminates excess excitement, puts a lid on valuations, and eventually creates a base to fuel new advances. It has been a while since we've seen a good 10% correction, so we are kind of due. The market rarely follows the intended script; hence, the investment approach we recommend is designed to smooth out, not eliminate, the bumps in the road.

### Fundamentals Reassert Themselves

As fast as the market fell at the beginning of October, a stampede of buy orders completely erased losses, sending markets to new highs within two weeks. Congratulations to you for not hitting the panic button. Staying focused on the long term picture takes perspective.

Much of the economic data suggests the economy continues to expand at a moderate pace, including preliminary data that indicated Q3 GDP

expanded at an annualized rate of 3.5%. Moderate growth is also being reflected in Q3 earnings, which are growing at a respectable pace.

Even if a recession occurs in Europe, U.S. exports to the region last year amounted to 1.5% of the total U.S. economy. It never helps to see international economies slow, but the effects should be minimal for us here in the U.S.

The Ebola virus injected some fear into the markets early in the month, but the virus has not spread, alleviating some of the anxieties that a pandemic would dampen economic growth.

Then we have the influences from the global central banks. Yes, the Federal Reserve is no longer buying long-term bonds. Yes, the first rate hike of the recovery is expected in the middle of next year, but any increases are expected to be gradual, limiting competition with stocks.

Any of the factors above, or unforeseen events, can create volatility. While the future is never worry-free, the U.S. economy continues to expand at a moderate pace, which in turn, fuels earnings growth.

As always, we are honored and humbled that you have given us the opportunity to serve and help you. Your complete happiness and financial security is our main concern each day. Thank you so much for your friendships, trust, and confidence. Please feel free to give me a call if you need anything at all.

Happy Thanksgiving from all of us at Johanson Financial Advisors!