JOHANSON
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# Volatile August – How did you do?

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In This Letter

- Volatility and Decision Making

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The broad S&P 500 index tumbled 6.26% in August, its worst month since May 2012. In fact the stock market corrected 12% from its earlier 2015 high. How do you feel? More importantly, what did you do?

Whenever markets trade at extremes, or current events heighten our anxiety level, we tend to overreact. This can often lead to poor decision making.

> "Overreacting is a fundamental element of our human nature. … For smart investors these overreactions create predictable and exploitable opportunities…"

I learned a great lesson years ago.

In 1986, I grabbed a piece of the "American Dream" by buying my first home. Our home in Almaden Valley cost $174,000 and was a dream come true for us at the time. As years went by, and my family grew, my wife and I decided we needed a little more space. Four children will motivate you to find a little spot in your house to hide. We decided to move into another home in Almaden Valley with more square footage.

We also decided to keep our original home then valued at $325,000 as a rental property and tried to make ends meet. The first year we managed everything just fine. After that, our tenant threw us for a loop. I say us, but actually it was me. This tenant was really difficult to deal with.

They were always late with their rent payment. Thanksgiving dinner was interrupted because they had a leaky faucet and the final straw came when they simply stopped making rental payments altogether. After months of giving them eviction notices, we were forced to take them to court. Judgement was granted in our favor and they moved out.

Victory! Of sorts...

The bitter taste in my mouth was difficult to wash away. I disliked the feeling so much we decided to sell the property for about $340.000. Yes, we made money. But today looking back I realize that we (OK, Jennifer, it was **me**) overreacted to a bad experience. Today, that house would be valued well over $1mm. My reaction to a temporary bad feeling led me to sell at the wrong time. What a huge mistake I made in overreacting.

30 years ago, I can remember the former Indiana basketball coach, Bob Knight ranting and throwing a chair in front of a player shooting free throws. He may have overreacted just a little...

Overreacting is a fundamental element of our human nature. We take extreme measures or actions to diffuse our anxiety and frustration. For smart investors these overreactions create predictable and exploitable opportunities as we can buy at times others may be overreacting and selling.

Once again, I will ask the questions - how do you feel about the volatility? More importantly, what did you do? Would you rather sell some portion of your stock portfolio, keep things the same, or buy into the turbulence?

Know it is critical for us to keep your portfolio comfortable. Volatility can be managed by investing in a diversified portfolio that seeks out long-term appreciation, a modest degree of stability, and income.

My sense is we may get some more choppiness this month, but calmer heads should prevail this fall. We are currently buying on the dips with extra cash. This is a great time to buy some quality blue chip dividend payers.

The markets have been worrisome over China. Try and block out the headline news relating to China. They may be taking up too much space in our brains. In fact they may be allowing some to build an entire apartment. China is the 2nd largest economy in the world behind the U.S. and they have great potential for growth. It may help if you liken China to a teenager, they are going through an awkward stage. This young powerful engine should and will figure it all out.

In the meantime, know that our exports to China represent less than 1% of U.S. GDP. The world will continue to consume goods no matter where they are produced.

The Fed may finally raise interest rates a hair this month. No one knows for sure. One reason the Fed remains on track for the interest rates increase is that real GDP grew at a 3.7% annual rate in Q2 versus the prior estimate of 2.3%. This was a nice rebound from the 0.6% subdued weather growth rate in Q1. Even if the Fed raises interest rates, they will be more than careful as there is a lack of inflation at this point.

Remember we are invested in the long-haul, we must continue to ride the wave and not overreact based purely on our emotions.

We hope you had a great summer. Please feel free to give us a call anytime with questions, concerns, or if there is anything we can do for you.