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WHY THE LAST TWO DAYS ARE A GOOD REMINDER OF WHY IT'S IMPORTANT TO TAKE A LONG TERM VIEW

As you have likely seen in the news, over the last two market days the Dow Jones Industrial Average (DJIA)[i] declined 7% over the last two market days. However, it is important to remember that even after the last two days, the DJIA is up 20% over the last year; a great year by historical standards.

What has driven the recent drop? From my perspective, there are three factors:

- **Investor profit taking.** Given the appreciation U.S. equities over the last few years, some investors may be existing positions to realize profits**.**
- **Trading algorithms.** As traders' use of trading algorithms have become more common[ii], declines in a market can have a ripple effect and even exacerbate declines in other markets.
- **Anticipated Federal Reserve rate hikes.** Strong wage and jobs growth, while signs of a strong economy, also signal that the Federal Reserve may increase the Fed funds rate to prevent 'overheating' which can contain economic growth.

Looking forward, there are two primary reasons why we remain optimistic:

- **History.** This is not the first time we have seen this. Since 1987, there have been six instances where the DJIA has declined by 7% over a two-day period. In those six instances, the market on average increased 7% over the next 12 months
- **Strong US economic fundamentals.** Based on recent jobs growth, wage growth, and unemployment of only 4.1%, we believe the US economic outlook remains positive.

While we remain positive about the outlook, the last few days remind us that the market can be volatile, and that it is important to take a long-term view and stay the course.

Should you have any questions please reach out to your HD Vest Advisor.

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Investments in individual sectors may be more volatile than investments that diversify across many industry sectors and companies. Certain sectors of the market may expose an investor to more risk than others.

[i]Dow Jones Industrial Average is unmanaged and measures broad market performance. It is not possible to invest directly in an index.
[iv]Investopedia, 2015