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The Buttonwood

Our Thoughts On Investment Trends,
An Informational Newsletter

3rd Quarter —2017



Q3 In The Books

Q3 2017 is in the books and the beat goes on. The great bull market that started on March 9, 2009 continues the upward drumbeat and has done so this year with extremely low volatility. Thus far in 2017 there have been only 8 days where the Dow Jones Industrial Average has moved more than 1% either up or down. Of those 8 swings of 1% or more, 4 have been up and 4 have been down. Since this is the third time we've mentioned the lack of volatility in the **Buttonwood**, we thought we might spend more time explaining why low volatility is generally very positive.

Through September 29, 2017, the last trading day of the third quarter, the Dow Jones was up 13.4% on a price basis. From the beginning of the year through the end of September the Dow posted 41 new-high closing prices. What this tells us is that the market is just slowly chugging along and rising with little fanfare and virtually no downside swings. This low volatility is a primary characteristic of a bullish market environment. When the market, or in this case an index, is experiencing low volatility it is evidence of the indexes components working in tandem on the upside. This would not be the case in a bearish environment. Bearish markets are characterized by erratic and sharp price swings which typically display a downward bias. The 1987 market is a case in point.

Through September 30, 1987 the Dow Jones was up 36.94% on a price basis. From the beginning of the year through the end of September the Dow posted 56 new-high closing prices. There were 55 days where the market was up or down 1% or more. Of those 55 days, 36 (65.5%) were up and 19 (34.5%) were down. In retrospect, this type of volatility with an upside bias, 36.94% price appreciation through September 30th of 1987, combined with deteriorating fundamentals set the stage for the greatest one-day decline in NYSE history when the Dow dropped 22.61% on October 19, 1987. Rest assured that we do not foresee a repeat of 1987 and we remain very comfortable with the low volatility that we've seen recently.



History of the Buttonwood

On May 17, 1792, twenty-four merchants gathered under a Buttonwood tree at 68 Wall Street. There they signed the Buttonwood Agreement, creating the first investment community, which later evolved into the New York Stock Exchange.



The Buttonwood—3rd Quarter —2017

The World as One Again

You may recall that in the last issue of the *Buttonwood* we mentioned that the first six months of 2017 saw a rise in stock prices on a global scale. As the third quarter ended, this positive global trend was still very much intact. The narrative has not changed regarding the reasons why the world markets are doing well. Year-to-date, of the 54 indices from the Wall Street Journal's Market Data Center data base that we track, only 2 are down. In general, very solid fundamentals are in place and driving share prices higher. These include continued strong corporate earnings, improving economies and dovish central banking policies worldwide.

Evidence of the strength of this trend is shown on the table below labelled **The MSCI ACWI—All Country World Index**. The table shows the monthly returns of the MSCI ACWI Index going back 29 years to 1988. This index is defined as a

The MSCI ACWI—All Country World Index

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Average	-0.3%	0.6%	0.8%	2.1%	0.3%	-0.6%	1.3%	-1.4%	-0.5%	1.5%	0.6%	2.0%
2017	2.7%	2.6%	1.0%	1.4%	1.9%	0.3%	2.7%	0.2%	1.8%	N/A	N/A	N/A
2016	-6.1%	-0.9%	7.2%	1.3%	-0.2%	-0.8%	4.2%	0.1%	0.4%	-1.8%	0.6%	2.0%
2015	-1.6%	5.4%	-1.8%	2.7%	-0.4%	-2.5%	0.8%	-7.0%	-3.8%	7.8%	-1.0%	-1.9%
2014	-4.1%	4.6%	0.2%	0.7%	1.8%	1.7%	-1.3%	2.0%	-3.4%	0.6%	1.5%	-2.0%
2013	4.5%	-0.2%	1.6%	2.6%	-0.6%	-3.1%	4.7%	-2.3%	5.0%	3.9%	1.2%	1.6%
2012	5.7%	4.8%	0.4%	-1.4%	-9.3%	4.7%	1.3%	1.9%	2.9%	-0.8%	1.1%	2.1%
2011	1.5%	2.8%	-0.3%	3.9%	-2.5%	-1.7%	-1.7%	-7.5%	-9.7%	10.6%	-3.2%	-0.3%
2010	-4.4%	1.1%	6.2%	0.0%	-9.9%	-3.1%	8.0%	-3.7%	9.4%	3.5%	-2.4%	7.2%
2009	-8.6%	-10.0%	7.9%	11.5%	9.5%	-0.7%	8.7%	3.4%	4.4%	-1.6%	3.9%	2.0%
2008	-8.3%	0.1%	-1.7%	5.3%	1.2%	-8.3%	-2.7%	-2.4%	-12.7%	-19.9%	-6.8%	3.5%
2007	0.9%	-0.7%	1.8%	4.2%	2.7%	-0.4%	-1.6%	-0.5%	5.2%	3.8%	-4.6%	-1.2%
2006	4.9%	-0.3%	1.9%	3.2%	-4.2%	-0.2%	0.6%	2.4%	1.0%	3.7%	2.6%	2.1%
2005	-2.2%	3.3%	-2.4%	-2.4%	1.6%	0.9%	3.6%	0.6%	2.9%	-2.8%	3.5%	2.4%
2004	1.6%	1.7%	-0.8%	-2.5%	0.5%	1.9%	-3.3%	0.4%	1.9%	2.4%	5.3%	3.8%
2003	-3.0%	-2.0%	-0.7%	8.6%	5.5%	1.7%	2.1%	2.2%	0.5%	5.9%	1.4%	6.2%
2002	-2.8%	-0.9%	4.5%	-3.5%	-0.1%	-6.3%	-8.5%	0.1%	-11.1%	7.2%	5.3%	-4.9%
2001	2.5%	-8.5%	-6.9%	7.1%	-1.4%	-3.2%	-1.7%	-4.8%	-9.3%	2.1%	6.0%	0.9%
2000	-5.5%	0.2%	6.5%	-4.6%	-2.7%	3.3%	-3.0%	3.0%	-5.6%	-2.1%	-6.3%	1.6%
1999	1.9%	-2.6%	4.4%	4.2%	-3.7%	4.9%	-0.5%	-0.2%	-1.2%	4.9%	3.0%	8.2%
1998	2.1%	6.7%	4.1%	0.8%	-2.0%	1.7%	-0.1%	-14.2%	1.8%	9.0%	5.9%	4.5%
1997	1.5%	1.2%	-2.2%	3.0%	5.8%	5.0%	4.4%	-7.1%	5.2%	-6.1%	1.4%	1.2%
1996	2.1%	0.2%	1.4%	2.3%	-0.1%	0.4%	-3.9%	1.1%	3.5%	0.2%	5.2%	-1.6%
1995	-2.2%	0.9%	4.4%	3.4%	0.9%	-0.2%	4.7%	-2.4%	2.6%	-1.8%	3.0%	2.8%
1994	6.5%	-1.6%	-4.7%	2.5%	0.4%	-0.7%	2.0%	3.4%	-2.5%	2.4%	-4.5%	0.2%
1993	0.1%	2.2%	5.5%	4.3%	2.5%	-1.2%	1.9%	4.6%	-1.8%	2.8%	-5.4%	5.2%
1992	-1.7%	-1.7%	-4.7%	1.1%	3.6%	-3.8%	0.1%	2.0%	-1.1%	-2.7%	1.5%	0.7%
1991	3.5%	9.2%	-3.5%	1.1%	2.2%	-6.3%	4.6%	-0.4%	2.3%	1.5%	-4.5%	7.2%
1990	-4.8%	-4.4%	-6.4%	-1.5%	10.2%	-0.9%	0.8%	-9.6%	-10.7%	8.9%	-1.9%	1.9%
1989	3.4%	-0.8%	-0.7%	2.3%	-2.5%	-1.6%	11.1%	-2.5%	2.8%	-3.4%	3.8%	3.1%
1988	2.3%	5.6%	2.9%	1.1%	-2.1%	-0.3%	1.7%	-5.7%	4.1%	6.4%	3.2%	0.7%

Source: Charles Schwab, ACM as of 9/30/17

The Buttonwood—3rd Quarter —2017

The bull market has a very good chance of continuing in our opinion, but could correct (10% or more downturn) at any time. With the unemployment rate at what economists call the "natural rate of unemployment" (4.3%), with consumer sentiment still strong, with accommodating central bank's policy world-wide, with solid earnings growth, with the MSCI ACWI World Index showing growth over the last 11 months, with the Institute of Supply Management report showing continuing growth, with the measure of Leading Economic indicators expanding, we think the market can continue to climb. It also helps to remember that bull markets rarely end without an accompanying recession — and we don't see a recession anytime soon.

Seven Longest Bull Markets

Start	End	# of days	Start Price	End Price	% Change
12/4/1987	2/24/2000	4465	223.92	1,527.46	582.15%
3/9/2009	9/30/2017	3128	676.53	2,502.00	269.83%
6/13/1949	8/2/1956	2607	13.55	49.74	267.08%
8/12/1982	8/25/1987	1839	102.42	336.77	228.81%
4/28/1942	5/29/1946	1492	7.47	19.25	157.70%
3/14/1935	3/10/1937	727	8.06	18.67	131.64%
10/3/1974	11/28/1980	2248	62.28	140.52	125.63%

Finally as the chart above illustrates this current bull market has 1,337 days to go before it can become the all-time leader. Plenty of time for long term, conservative investors to **GET RICH SLOW.**

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For more information
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7 Key Tenets to Successful Long-Term Investing

At its core, we believe that successful investing requires a consistent investment philosophy and discipline. We believe that buying and holding quality investments over a long period of time is the foundation for a successful investment program. Here are our beliefs for successful investing:

1. GET RICH SLOW
2. BELIEF IN CAPITALISM, FREE ENTERPRISE, & AMERICA
3. A DISCIPLINED INVESTMENT PHILOSOPHY IS CRITICAL
4. DON'T OVERPAY FOR UNDERPERFORMANCE
5. COMPARE PERFORMANCE CORRECTLY
6. TAXES ARE IMPORTANT
7. MANAGERS MANAGE

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Patient Investing. Steady Returns.

Successful investing is an elusive realty for many people. It should not be that way.

Investors who are willing to embrace a long-term time horizon, adhere to a conservative investment philosophy, and seek proper guidance will be rewarded. In the short run, the markets may seem volatile, in the long run, the trend is favorable for those willing to hold quality investments over time.

At ACM we believe that the underlying principles of sound investment should not alter from decade to decade. The likelihood for success is overwhelmingly in your favor if you have the required patience and proper guidance.

Please call us, we'd like to help you ***Get Rich Slow.***