

February 2018

“Pullbacks are normal,” Liz Ann says. “While they feel terrible, 3% to 5% drops are normal and typically healthy in bull markets. This sell-off looks like a reversion to the mean, rather than a precursor of a more severe correction or a bear market.”

(Liz Ann Sonders, Stocks Drop Again, Ending Worst Week Since 2016, 2/2/2018)

Recent Drop of the DOW

Market pullbacks never feel good but are most definitely required for a healthy market. We should be expecting one at least once a year. 2017 was an oddity in the market since we did not have any pullback at all. There is one major item that is leading to last week's drop in the market and that is the *fear of inflation*.

Friday's Employment Report

Friday's employment report was very strong:

- Unemployment is at 4.1%.
- Nonfarm payroll rose by 200,000 jobs month over month.
- Hourly wages grew 2.9% year over year.

That is a very good number for employees. Their wages have been stagnant for a long time and it looks like they may finally be on the rise. The increase is potentially due to the lack of skilled workers and the fact that many states increased the minimum wage in January 2018 to \$15.00. To investors, they worry that the increased wages may cause profits to take a dip or begin to push wages up (wage inflation).

Interest Rate

The fear of wage inflation has caused interest rates to rise. In the fourth quarter of 2017, rates for the 10-year bond were 2.05%. They closed last Friday at 2.85%. This concerns investors because they fear that the Fed may need to raise interest rates more quickly than the three increases already anticipated for this year.

LifeSteps Financial

We do not foresee wage increases or interest rate hikes deterring a longer-term bull market. The economy is strong and improving. A key to successful long-term investing is to have a well-balanced, diversified portfolio and to be prepared with a plan in the event of an unexpected outcome.

We are always available to discuss any questions or concerns about the market or your portfolio. Please do not hesitate to contact us. We are here to help.

Regards,

Henry Ford

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