

## Market Update: February 5, 2018

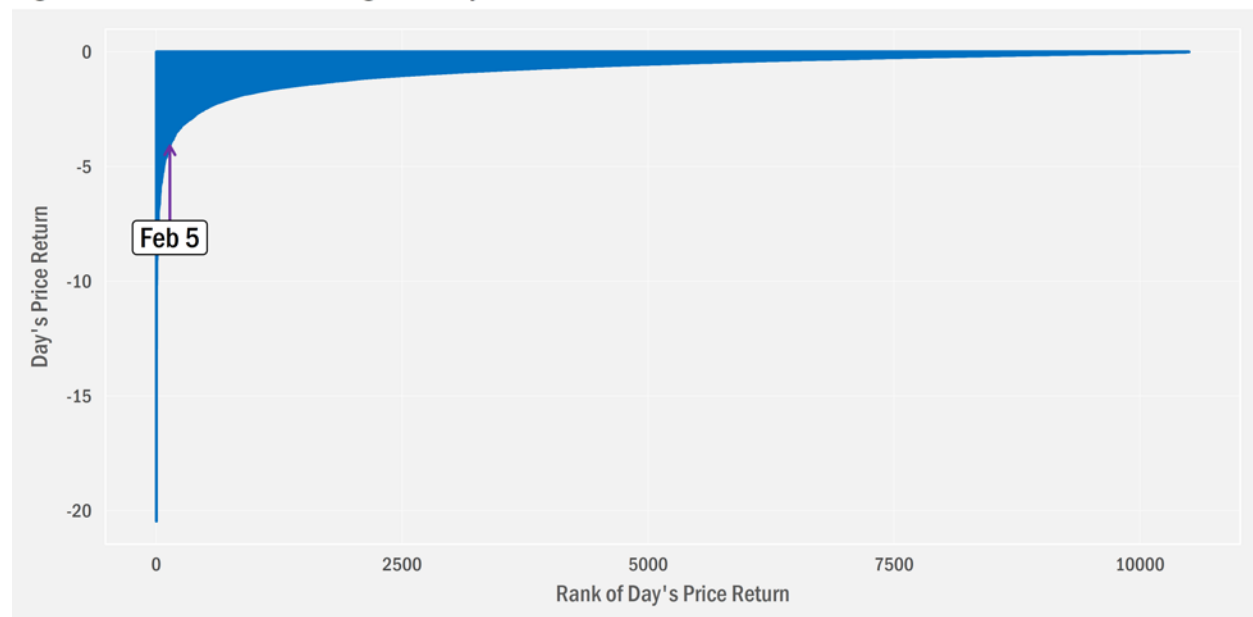
### ALL OF A SUDDEN

One of the several risk-oriented messages we hope has resonated with readers of our commentaries over the last year is that we have maintained a strong belief that the absence volatility in equity markets did not in any way diminish the potential for volatility. Today's turn of trend is a forceful reminder that markets can and likely will turn negative at times. These shifts can be abrupt, and they may arrive with no obvious catalysts. They may prove ephemeral or my herald a longer-term downtrend. Today's result was quick to form, and we've read no singular explanation for its occasion. Unsettling for sure, it still was far from the worst seen in history. And though one may wish to turn and run for fear of more to come, it may not portend an extended decline. Longer-term goals perhaps better served, the plunge represents an opportunity for investors to revisit comfort with interim market losses via a discussion with a trusted advisor.

### Ranking the Drop

Ranking near the top 1% worst one-day price declines in the index since 1927, today's 4.10% plunge in the S&P 500 is the largest in more than six years, when the index sank 4.46% on August 18, 2011. The selloff that began on January 29 now has erased gains for the year that at one point had topped 7.5%. Its depth aside, the downdraft that now totals 7.8% (see Figure 2) leaves the S&P 500 still up a hearty 17.61% year-over-year, a figure that compares very well to the 10.2% annualized average achieved over the past 50 years.

Figure 1: S&P 500 Ranked Negative Days



From 01.03.28 to 02.05.18. Price returns, excluding the effects of dividends. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Bloomberg

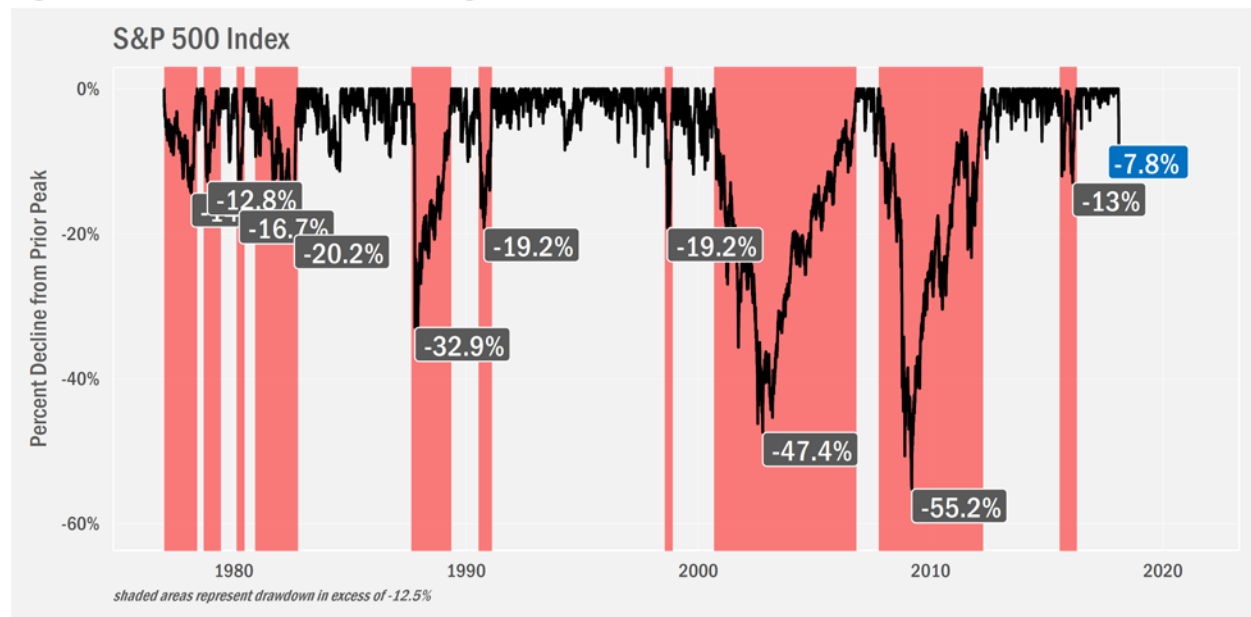
### Conjecturing the Cause

As so often will be the case, the late-day nose-dive sparked concerns among market commentators that more perhaps was to come. Just as verbal was a more optimistic crowd that found various subtexts in the day’s activity to suggest now was not the time to fret greater damage to equity-invested monies. The former bandied thoughts that more attractive bond yields and/or impending central bank missteps and/or historically lofty equity valuation multiples were to blame. The latter guilted a round of computer-driven selling after a reasonably negative start to the day and/or fixed income rates that were not yet sufficiently generous to peel away so many equity dollars and/or something about systemically leveraged short gamma.

### Bet it Was Something

We imagine the causes were some bit of all the above. Investible markets, fixed income and equity alike, are at a unique moment in recent history. Global macroeconomic growth finally has gained stable footing, marching higher to a tune much different than that sung for some time after the Great Recession. Global bond yields seem to be catching up to that reality, but haltingly so, as questions remain as to whether global central banks have set proper forward paths for monetary support. Meantime, global equity market valuations discount all the growth seen so far and a good bit more, if we place them in a historical context. Even so, many wonder just how much weight that historical context should carry, given how greatly the world has evolved over the past several decades.

Figure 2: Historical Maximum Percentage Loss from a Prior Peak



From 12.31.76 to 02.05.18. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. Drawdown may be measured as the maximum loss from a prior peak value and/or the length of time the portfolio requires to return to breakeven after a prior peak. SOURCE: SRCM using data from Bloomberg

## **Sitting Tight, Knowing Bounds**

We've written in the past about a desire to have unexpected events such as today's decline to come not as a surprise. We believe this objective promotes both a healthy skepticism of the consensus view and corollary understanding that, while the future is unknowable, we can review a range of expectations to establish how we might react to various scenarios (from the probable to the just barely possible). We see those objectives, in turn, supporting a calm demeanor in the presence of market instability, a central tenet of our approach to investment management. With much of the approach focused on the assessment and management of investment-related attitudes and behaviors, we welcome the opportunity to offer perspective when investors are challenged by rising market uncertainty.

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The S&P 500 Index represents 500 U.S. companies and captures approximately 80% coverage of available market capitalization.

One cannot invest directly in an index. Index performance does not reflect the expenses associated with the management of an actual portfolio.

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