STATERA
ASSET MANAGEMENT

Commentary: June 2017

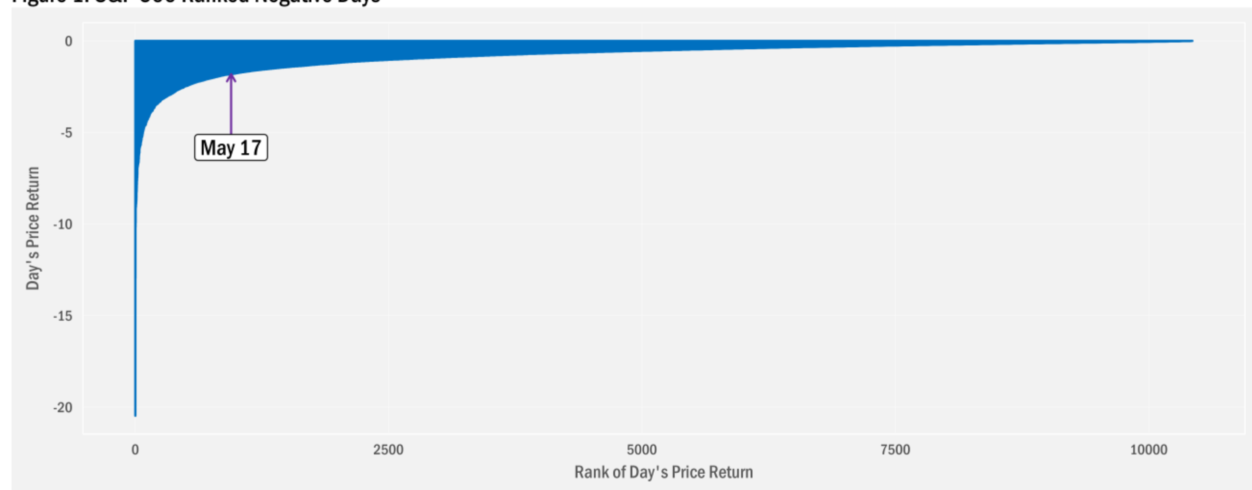
MAINTAINING PERSPECTIVE

On May 17, the S&P 500 Index dropped 1.82%. Day-after headlines were hardly subtle as breathless TV anchors whipped up anxiety like so much fresh cream. Compared to what's proved a relatively tranquil year or so, the drop was noteworthy. But, while it might not have seemed such at the time, the day's decline was not so far out of the ordinary as to be considered extreme in the context of the last near century's-worth of market activity. This month's commentary seeks to offer some of that longer-term context as a reminder that markets do sometimes experience substantial declines and that it's been some time since we have experienced an onerous level of red. Though we may find solace in the equity market's long-term positive bias, the shift in tenor highlights the need for regular reassessment of comfort with market risk.

Investing Involves Risk

Since January 3, 1928 through the end of May, the S&P 500 turned in a daily decline of 1.82% or more on 946 occasions. That tally amounts to about 4% of the 22,458 trading days over that period. Parsing the data a bit further, when we look only at down days, we see that just about 9% of them were as negative or worse than that on May 17. In Figure 1, we provide a ranked chart of all market down days since 1928.

Figure 1: S&P 500 Ranked Negative Days



From 01.03.28 to 05.31.17. 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 of the invested capital. 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

The worst decline of the past five years registered -3.94% on August 24, 2015, ranked 149th in that list. Thought to be an early example of a market crash prompted by automated trading, the worst one-day drop in the series, of -20.47%, occurred on October 19, 1987. With the additional context, one now might find

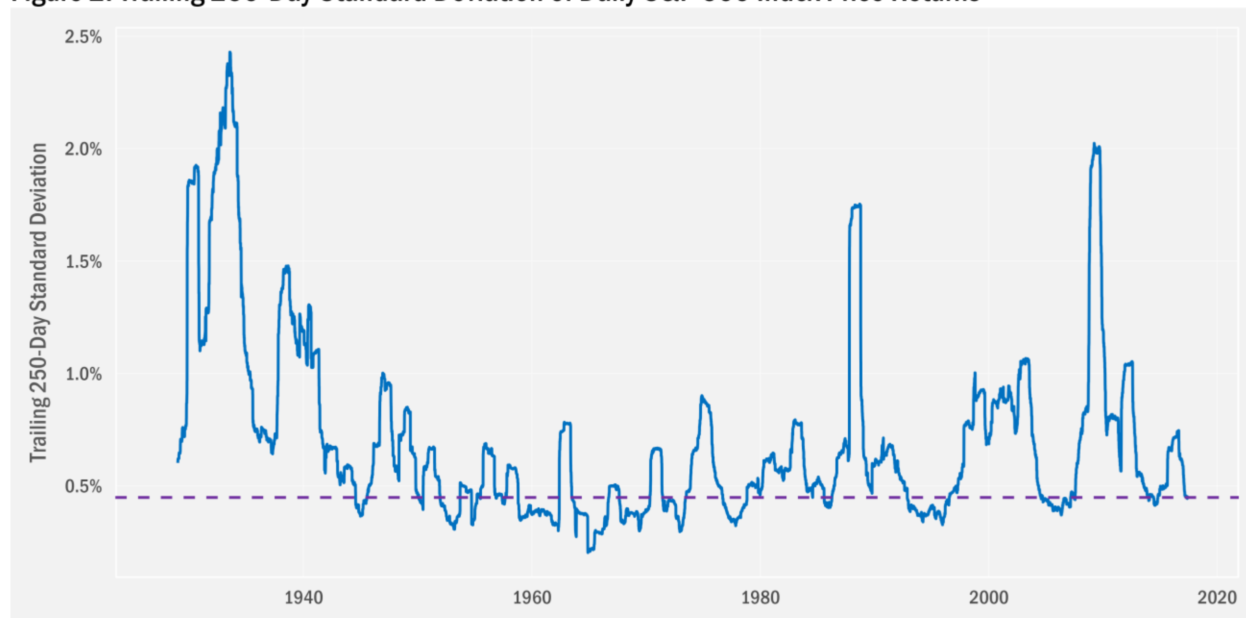
that Wednesday's decline, while perhaps still momentarily shocking, was not particularly monumental. We don't mean to suggest that the day was not noteworthy, just not so far out of the ordinary.

A Hearty Reminder

Hinted in the data already offered is that the Wednesday decline was far from extreme. To show what we mean, we have calculated the standard deviation of the past 250 trading days (about one calendar year's worth) of returns[1] for each day represented in the data. Calculating standard deviation involves relatively straightforward math, the result of which is an expression of the relative bouncing about, as it were, of the numbers in the series. The higher the standard deviation, the more spread out are the numbers in the series. In investing, we use standard deviation to express market volatility.

Based on trailing standard deviation, as we show in Figure 2, the S&P 500 has settled down rather quickly from the tumult experienced at the start of 2016. Even more, we see that 2016 was not even all that volatile in the grander context of history. And the aftershocks of 2011 were just that compared to the quake that was the Financial Crisis and the Technology Bubble before it.

Figure 2: Trailing 250-Day Standard Deviation of Daily S&P 500 Index Price Returns



From 01.03.28 to 05.31.17. Price returns, excluding the effects of dividends. Standard deviation is a statistical metric that describes the variation of a set of data about its average. A higher number reflects more variation (or volatility). Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all of the invested capital. 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

[1] We reviewed price returns for the discussion this month. Price returns exclude the effects of the payments of dividends and the reinvestment thereof.

Can be Worse

On Thursday, May 18, we woke to news that the new president of Brazil, who replaced an impeached Dilma Rousseff found guilty of obscuring the nation's budgetary situation though improper loans, might too have acted in a manner unbefitting the country's leadership role. The Brazilian stock market, as measured by the MSCI Brazil Index, fell 14.7% on the day as investors seemed to reel against the return of political uncertainty. As our own political cauldron bubbles gasses of conspiracy and drama, and as the broader geopolitical backdrop stews amidst hintingly positive but still relatively uncertain macroeconomic trends, the bump that was May 17 may prove a foreshadowing.

Back to Calm

Or not. The S&P 500 has more than recovered from the May 17 dive. Either way, the broader reflection should be that such moves and more are a natural part of the equity market activity. And on a more positive note, there may be peace of mind in knowing that over that same history there were nearly 15% more up days than there were down days. That positive bias registers among the primary draws of equity investing.

We hope this and earlier commentaries have served as a healthy reminder of such. On several occasions since the financial crises we've experienced a relatively strong shock out of market calm. Each time, we recall discussions with some folks expressing surprise at the lively activity, either from not earlier having experienced it or otherwise having forgotten what market volatility felt like.

Whether May 17 was a quickly gone summer's squall or the first volley of a stormy season to come, we cannot say. But, we for sure find atmospheric metaphors most fitting to describe historical market experience. While we cannot predict the weather, we believe such discussions help us suit up for any inclemency we may encounter. As always, we suggest readers revisit their respective comfort with market volatility and reach out to your Advisors as additional discussion and investment review is desired.

Important Information

Investing involves risks. Past performance is not indicative of future results.

Diversification does not ensure profit or protect against loss.

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

The S&P 500 Index represents 500 of the largest U.S. companies by market capitalization.

The MSCI Brazil Index is designed to measure the performance of the large- and mid-cap segments of the Brazilian market. The index covers approximately 85% of the Brazilian equity universe.

Standard deviation is a statistical metric that describes the variation of a set of data about its average. A higher number reflects more variation (or volatility).

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