Market Brief

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Market Snapshot

Closing Values as of 02/05/2018

Dow	24,364
S&P 500	2,640
Nasdaq	6,966
Gold	$1,332

The return of volatility ...

Finally, after an unusually long period of investor complacency, volatility has returned to the markets. Not surprisingly the catalyst for the return may have been the release of good news on the economic front. Friday's release of strong employment numbers and evidence of improving wage growth sent the markets into tailspin decline of more than 2%. Rocked by the sudden return of volatility investors continued the sell off when the markets opened Monday. At one point the DOW was down more than 6% before eventually "recovering" to end the day down just better than 4%. In an extraordinary display of volatility, one five minute segment of the market saw the DOW, which was already down 800 points, fall another 800 points then recovered more than 800 points.

With no fundamental weakness or surprising news events to shock the market, the most obvious reasons for the extreme volatility seem to be the return of volatility itself and computerized trading. Complacent investors who had become accustomed to a smooth ride with minimal declines clearly shocked by the sudden, deep, downturn. Shocked investors fed into the sell off creating even more volatility. As the market values fell to and below different trigger points computerized sell programs kicked in, fueling the volatility fire.

Adding a complex twist to the entire sell off is the collateral damage done by the unwinding of highly leveraged derivative investments intended to provide investors a means to hedge portfolios against sudden losses and/or take advantage of the lack of volatility that had become the norm. The unraveling of the leveraged and derivative assets may have led to added depth and the continuation of extreme volatility into Tuesday and may lead to even further declines in the future.

Put in perspective and keep your eye on your long term goals…

It is hard not to become anxious or fearful when you turn on the news and see headlines like "The DOW plunges 1175, worst point decline in history". Whether the markets are rising or falling it is important to keep the moves in proper perspective. As dramatic as a 1175 point one day loss may sound, it was only a 4.6% loss, and the market has had deeper one day losses (on a percentage basis) and recovered just fine. The market has climbed to extraordinarily high levels so relatively normal moves will seem much more dramatic because the numbers will be bigger.

The average investor would be well served to keep their long term goals in mind during times of extreme volatility. Just like today's stock market values (even after an 8% decline) seems expensive compared to values just 3 or 4 years ago, today's values will seem like a bargain 5 or 10 years from now. While experts tend to agree it's not a good idea to panic and sell in response to spikes in volatility or significant drops in market value, these conditions may present a buying opportunity for those with excess cash on the sideline. If you are able to maintain a long term perspective you will be better prepared to recognize and cease the opportunities presented by excessive volatility. Rather than focusing on and reacting to day to day values it is best to have a long term plan in place and stay the course.

Although we may see further declines in the days ahead, those who have been looking for an opportunity to increase stock exposure should view current levels and further declines as a buying opportunity. It is too soon to call the bottom or suggest going full weight into equities but adding 5% to an already underweight portfolio might be appropriate.