Fourth Quarter 2018 Knowledge College

DiMeo Schneider & Associates, L.L.C.

The Sky is Falling! …Not Quite

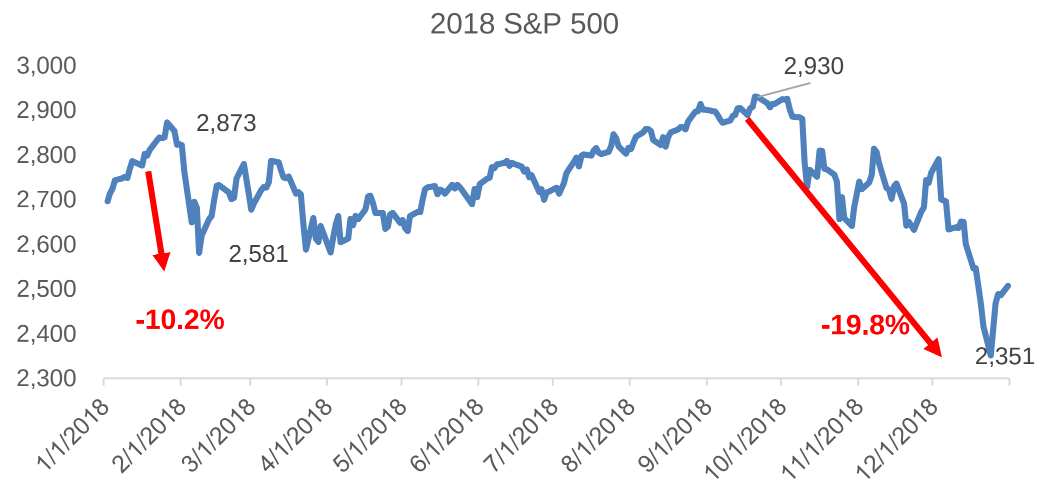
The S&P 500 Index rose more than 10% over the first 9 months of 2018, yet a tumultuous fourth quarter led to the index finishing with a negative return for the year (-4.4%), its worst calendar year return since 2008. From September 18th through December 24th, the S&P 500 Index retreated nearly 20%. This pullback was a rather stark contrast to recent years of low volatility which investors have come to enjoy or even expect.

To provide better perspective, we evaluated what "typical" volatility looks like in equity markets over long periods of time and contrasted that with 2018. What you'll find is that 2018, while disappointing, was actually a rather ordinary year.

Since 1928, there have been 53 corrections, defined as a market pullback greater than 10%. On average, these corrections occur every 1.7 years, last approximately 3.4 months (peak-to-trough), and experience a median decline of 15%. Thus far, this places the 2018 market pullback squarely in the typical category in terms of duration and magnitude.

Summary Statistics	
Current Correction Loss (9/18 – 12/24)	-19.8%
Current Correction (Months)	3.1
Number of >10% Drawdowns (since 1928)	53
Sample Period (1928-2018) in Years	90
Average Years Between >10% correction	1.70
Median Drawdown (once over >10%)	-14.8%
Median drawdown time period (months)	3.4

Source: Yardeni Research, Inc.



Source: Bloomberg

Given the frequency of these corrections, long-term investors often watch them come and go with little action taken in their portfolio; historically, such patience has been rewarded over time. We are often asked if "this time is different" and if a client would benefit from exiting the market while waiting for calmer waters; the reality, however, is that such actions are often ill-timed, as investors may ultimately miss out on significant recoveries.

Since the financial crisis, the S&P 500 has returned 16.6% annualized and 350.7% cumulatively, making it a historically advantageous time to be an equity investor. Additionally, over that period, the S&P 500 has experienced six market corrections in excess of 10%, with an average decline of 15.2%. Even for the perfectly unlucky investor that invested the day before the first pullback on April 23, 2010, after which the market dropped 16%, that investor would have still experienced annualized total returns of 11.06% through the end of 2018.

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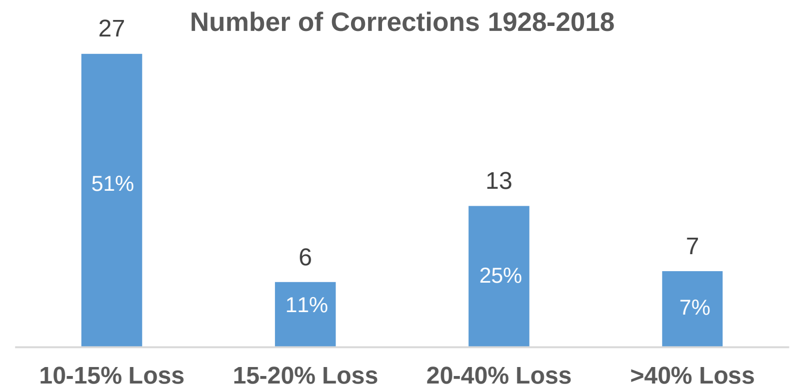
It is worth noting that equity market returns since the financial crisis have been abnormally high, which may question the validity of our analysis for returns when buying into the market just before a correction.

To allay this concern, we evaluated data dating back to 1928, and asked the same question regarding investor's long-term return after buying right before a correction. Investors would have experienced an average forward-annualized return of 4.1%, 6.2% and 9.0% over the following 3-, 5- and 10-year time horizons. The true tests to patience being rewarded came as recently as the global financial crisis for which the S&P 500 declined nearly 57% from October 2007 through March 2009 and as far back as the Great Depression where investors lost 83% from April 1930 to June 1932 (peak-to-trough).

These statistics further support our overarching theme, which is to avoid overreacting during volatile periods. There have been extensive studies conducted on investors' inability to consistently time markets, which we believe continues to apply to investing today. Maintaining thoughtful, strategic exposure to various asset classes is a part of building a diversified portfolio. Following a year of heightened market volatility, a prudent step would be to assess one's long-term goals and risk budget within the context of our new 2019 10-Year Capital Markets Assumptions.



Source: Yardeni Research, Inc.

S&P 500 Average Forward Annualized Returns		
3-Year	5-Year	10-Year
4.1%	6.2%	9.0%

Source: Bloomberg