IN FOCUS

Investment Insights into Current Events

DiMeo Schneider & Associates, L.L.C.

MARKET SLIDE CONTINUES

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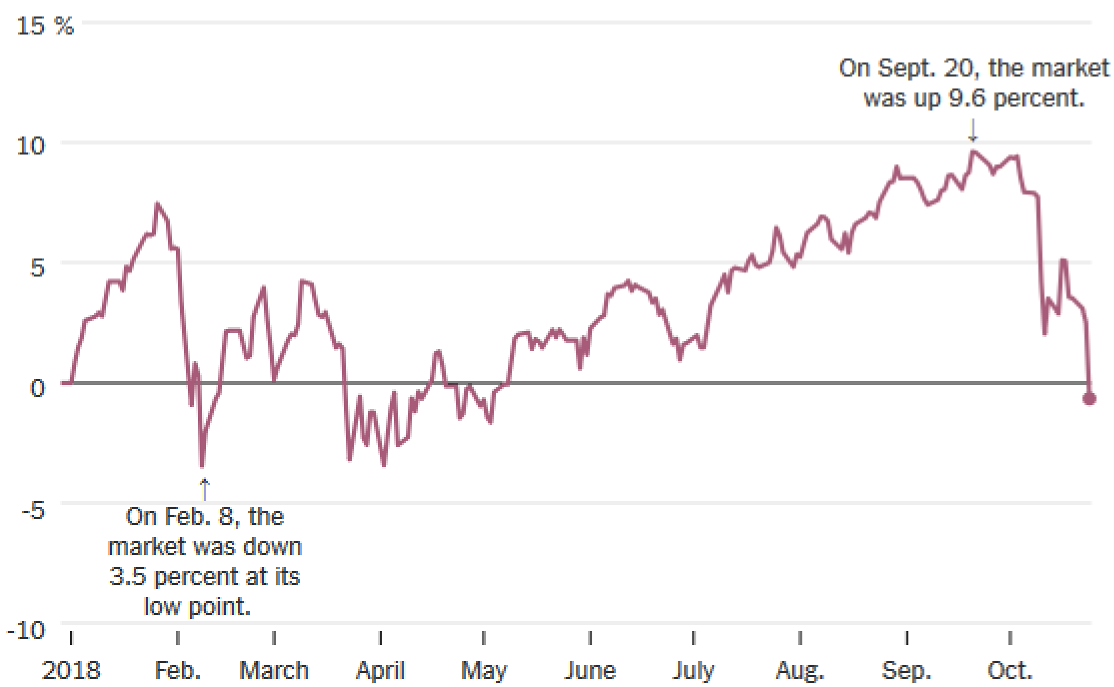
On Wednesday, October 24th, equities pulled back sharply, as mounting concerns over global growth, corporate earnings and rising rates left global equities down nearly 3 percent. The S&P 500 Index has now fallen in 13 of the past 15 trading sessions. October's market volatility has brought equity indices down nearly 10 percent – or more –from recent highs.

In its recent decline, the S. & P. 500 has erased its gains for 2018.



Source: NY Times, FactSet. Chart above is price return only and does not factor in dividends.

In light of the recent surge in market volatility, investors may be wrestling with the recent decline and wondering what (if any) changes should be made to portfolios.

Where do markets currently stand?
The October market pullback has resulted in negative returns for the month for nearly all asset classes.

Asset Class	Benchmark	YTD-2018 Total Return (09/30/18)	Total Return for 09/30 – 10/24	YTD-2018 Total Return (10/24/18)
TIPS	Barclays U.S. TIPS	-0.8%	-1.1%	-1.9%
Core Taxable U.S. Bonds	Barclays U.S. Aggregate	-1.6%	-0.5%	-2.1%
Core Tax-Exempt Bonds	Barclays Muni 5-yr	0.1%	-0.1%	0.0%
Tax-Exempt High Yield Bonds	Barclays HY Municipal	4.4%	-0.9%	3.5%
Taxable High Yield Bonds	Barclays U.S. Corp HY	2.6%	-1.2%	1.3%
International Bonds (Hedged)	Barclays Glbl ex-US (H)	1.3%	0.1%	1.4%
International Bonds (Unhedged)	Barclays Glbl ex-US (UH)	-3.0%	-1.0%	-4.0%
Emerging Market Bonds (UH)	JPM GBI-EM Div'd (UH)	-8.2%	-1.1%	-9.1%
U.S. Large Cap	S&P 500	10.6%	-8.8%	0.9%
U.S. Small Cap	Russell 2000	11.5%	-13.4%	-3.4%
International (Developed)	MSCI EAFE	-1.0%	-8.9%	-9.8%
Emerging Markets	MSCI Emerging Markets	-7.4%	-9.0%	-15.7%
REITs (U.S.)	FTSE NAREIT Eq REIT	1.8%	-2.9%	-1.1%
REITs (Global)	S&P Dev World Property	-0.5%	-4.0%	-4.5%
Commodities	Bloomberg Commodity	-2.0%	-0.3%	-2.3%
MLPs	Alerian MLP	5.9%	-6.4%	-0.9%

Source: Morningstar Direct

What caused the most recent market pullback?
No single culprit is to blame, though a combination of factors have contributed to the pullback – namely, concerns over global growth, corporate earnings and rising interest rates.

Further compounding recent market declines is the technology sector. On October 24th, the technology-heavy NASDAQ Composite Index dropped 4.4 percent, which was its largest single day decline since August 2011. The prices of Facebook, Amazon, Microsoft and Google parent Alphabet all fell by more than 5 percent for the day, leaving the group with double-digit declines for the month of October.

Is such a market pullback normal?
Yes, though it may not necessarily feel like it. Last year was a period of remarkable (and nearly unprecedented) low volatility, which makes 2018 market volatility seem extreme.

S&P 500 Index market moves (through 10/24/2018):

	2017	October 2018	YTD-2018	Decline from Recent Peak
Daily Index moves greater than +/- 1%	8	6	42	--
Daily Index moves greater than +/- 2%	0	4	12	-9.8%

To put the recent market decline into perspective, the S&P 500 Index since 1980 has experienced an average intra-year decline of nearly 14 percent (median decline of 10 percent), yet the index has still produced positive returns in 29 of the past 38 calendar years. So while investors may be inclined to sell equities following a pronounced market pullback, the S&P 500 Index provides a great example of how costly such a move could be.

Frequency of Market Pullbacks (S&P 500 Index, 1928-2015)

Drawdown	Historical Frequency	Typical Occurrences Per Year	Typical Recovery Time
-2%	Often	18	1-4 weeks
-3%	Once per Month	11	2-6 weeks
-5%	Once per Quarter	4	2-3 months
-10%	Once per Year	1	8 months
-20%	Once per Market Cycle	0	20 months

Source: Standard & Poor's, FactSet, J.P. Morgan Asset Management ("Investing with Composure in Volatile Markets"). Returns are based on price index only and do not include dividends. For illustrative purposes only.

In light of the current market volatility, how should investors react?

1) **Acknowledge risk** – investors should recognize that long-term investing entails market volatility. Taking risk isn't fun, though for most investors, it is necessary to meet long-term objectives. A prudently diversified portfolio should factor in long-term objectives, risk tolerance and time horizon.

2) **Revisit objectives** – in times of strong market performance, investors may underestimate their risk tolerance. Market pullbacks can be a good time to revisit long-term objectives relative to the risks being taken in the portfolio. If objectives are the same today as they were several months ago, investors should not let the current market pullback dictate changes to a well-constructed investment plan.

3) **Focus on the long-term** – given the media's heightened attention to the short-term ("Dow Plunges", "Equities Plummet", "What Investors Should Do Now", etc.), it might feel like a prudent course of action to make significant portfolio changes in the midst of a sharp market downturn. However, such moves are often ill-timed and can significantly impair the effectiveness of a prudently designed investment plan. As *Wall Street Journal* columnist Morgan Housel once wrote, "Short-term thinking is at the root of most investing problems. If you can focus on the next five years while the average investor is focused on the next five months, you have a powerful edge. Markets reward patience more than any other skill."

DiMeo Schneider & Associates, L.L.C. continues to believe that investors should be patient and adhere to a well-constructed, diversified investment portfolio anchored to your goals and time horizon. Despite elevated uncertainty, we do not find compelling reasons at this time that would justify overriding our asset allocation methodology.

For more information, please contact any of the professionals at DiMeo Schneider & Associates, L.L.C.

About the Author:

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Nick provides investment consulting services to nonprofit organizations, corporate executives, family trusts and other high net worth investors. He services clients by providing advice and expertise on asset allocation, portfolio design, investment policy statements, manager search process and overall investment management. Nick is also a member of the firm's Core Investment Strategy Group. Prior to joining the firm in 2007, Nick was a Senior Financial Planner with The Ayco Company where he provided comprehensive advice to affluent clientele. Nick earned a BA in Finance and Economics from the University of Illinois at Urbana-Champaign. He obtained the designation of Certified Financial Planner (CFP®) from the College of Financial Planning and is a CFA® charterholder and member of the CFA Society of Chicago. Nick enjoys long distance running (having completed three marathons and multiple half-marathons) and spending time with his family.