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Investment Insights into Current Events

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EQUITY MARKETS PULL BACK

February 2018
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What Happened?
On Monday, February 5th, the S&P 500 Index and Dow Jones Industrial Average (DJIA) both fell more than 4%, marking the worst one-day percentage decline since August 2011. When combined with declines from last Friday, the last two trading sessions resulted in these indices falling more than 6%, bringing the indices back to levels as of mid-December 2017.

Remarkably, the recent sell-off ends a streak of more than 400 trading sessions since the last time the S&P 500 Index had experienced a 5% pullback (dating back to the Brexit vote of June 2016).

Asset Class	Index	January Return	February Return (through Feb 5th)	YTD-2018 Return (through Feb 5th)
U.S. Large Cap	S&P 500	5.7%	-6.1%	-0.8%
U.S. Large Cap	Dow Jones Ind Avg	5.8%	-6.9%	-1.5%
U.S. Small Cap	Russell 2000	2.6%	-5.3%	-2.8%
International	MSCI EAFE	5.0%	-3.0%	1.9%
Emerging Markets	MSCI Emrg Mkts	8.3%	-3.5%	4.5%

What Caused the Pullback?
There was not a notable development or headline that led to the recent market pullback; in fact, corporate earnings and global economic data have generally remained quite strong. Some have pointed to concerns over a pick-up in inflation, rising bond yields and waning central bank stimulus as potential factors behind the volatility. Other possible factors include stop-loss orders (which would have automatically triggered sales during the sharp intraday decline) and algorithmic trading (computer models which recognize the pace of the decline and in turn produce additional selling – a situation of “selling begets more selling”).

Is the Recent Market Move Unprecedented?
It is important to note that while the recent pullback has been sharp over a short period of time, the move is well within historical norms. Many headlines focused on the Dow Jones Industrial Average (DJIA) recording its biggest single day point decline (-1,175), though the percentage decline (-4.6%) was only its 100th worst single trading day, according to S&P Dow Jones Indices.

The fact that 2017 was such a unique and extended period of low volatility makes the recent market pullback feel extreme. Last year, the S&P 500 Index had a maximum peak-to-trough drawdown of only -3%; since 1928, the index’s average intra-year decline is nearly -14%. The S&P 500 Index did not decline by more than 2% on a single trading day last year, though it did so on 5 days in 2016, 6 days in 2015 and 4 days in 2014 (the index had 21 such days in 2011).

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")

What Should Investors Do?
While it is understandable for investors to feel frustrated or anxious in the midst of such market volatility, we continue to emphasize the importance of maintaining a longer-term view. While the markets have recently shifted lower, nearly all investors have the same time horizon today as they did a week ago. During periods of heightened volatility, investors often feel the need to "do something", though short-term, reactive moves are often ill-timed and can significantly impair the effectiveness of a well-designed investment plan. So long as circumstances and long-term objectives have not changed, investors should adhere to their long-term investment plan and should thoughtfully rebalance over time.

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.