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"Occasional outbreaks of those two super-contagious diseases, fear and greed, will forever occur in the investment community. The timing of these epidemics is equally unpredictable, both as to duration and degree. Therefore we never try to anticipate the arrival or departure of either. We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful."

-Warren Buffett-

Overview

Stock market volatility has begun to increase after several calm years. Geopolitical concerns, an ongoing Euro area crisis, central bank policies, and falling commodity prices have investors nervous. The growing concerns about a slowdown in China shook markets Friday, driving the U.S markets to their largest drop in 4 years.

Volatility surged as the S&P 500 capped its worst week in three years, while Europe entered a correction and stocks from Hong Kong to Indonesia tumbled into bear markets. Junk bond yields rose to the highest since October 2012 and U.S. Treasuries had the largest weekly gain in five months. Oil sank below $40 a barrel for the first time since 2009 and was set for its longest losing streak since 1986. The S&P 500 dropped 3.2%, the most since November 2011, to below 2,000. More than $3.3 trillion has been erased from the value of global equities after China's decision to devalue its currency spurred a wave of selling across emerging markets. The worries over slower economic growth come as a strong dollar and plunge in oil prices take a toll on corporate earnings, and the Federal Reserve is contemplating the first increase in interest rates since 2006.

The market sell-off gained steam over the weekend, and U.S. stocks were sharply lower in early action today. Chinese markets continue to tumble on growth and liquidity concerns. The drop in China led a broad-based sell-off in Asia, while European equities were also seeing widespread pressure. Treasuries were up, while the U.S. dollar, crude oil and gold prices were lower on the uneasy global sentiment.

Perspective

Pull-backs can be good for markets, and are necessary in a healthy market environment. They can also be an opportunity for investors - especially when the fundamental backdrop is both unchanged and generally positive. The market's recent volatility follows an exceptionally low-volatility period in the markets, starting in July 2012 - with only a handful of short interruptions. While equity valuations have been on the high side of normal, they are still within historical ranges, with the S&P 500 trading at 17.5x trailing 12 months' earnings.

Volatility and risk are unavoidable in investing. Moreover, markets can be more volatile over shorter time periods. In fact, every year since 1995, the market has seen at least one 5% pullback, with periods of elevated uncertainty (Euro crisis in 2011) experiencing several. Despite these instances, markets usually tend to recover within several months. Short term pullbacks, in and of themselves, should not be a reason to panic. Having the fortitude to stay invested during these periods requires discipline and has often been rewarded.

CONCLUSION

We are witnessing an increase in financial market volatility, and it is natural to wonder how this will impact your wealth and financial goals. While we will continue to monitor movements and developments in the financial markets, we do not anticipate making any significant portfolio adjustments at this time. We may, however, use this as an opportunity to tax loss harvest and/or strategically rebalance portfolios. Rather, we would like to highlight a few important aspects:

1. **There is no free lunch.** The reason to expect higher returns in stocks over bonds and cash is they have greater volatility. We have to accept higher volatility in stocks in order to earn higher expected returns. We take a long-term view on asset allocation and your portfolio should be invested according to your risk tolerance, time horizon and financial goals.

2. **Market timing is not a viable strategy.** If one could market time consistently, the rewards would indeed be great. Unfortunately, time and time again, studies have concluded that it is nearly impossible to consistently profit from timing the markets ups and downs. Investors are quick to buy after times have been good, and equally fast in bailing out at the first sign of trouble, often selling low and buying high. The good news is that the benefits of long-term, disciplined asset allocation are compelling. Successful investing, specifically in equities, requires discipline in both the good and bad times.

3. **Diversification works.** One of the most important lessons from the financial crisis is that diversification works. While it may be difficult to discern on a day-to-day, or even year-to-year, basis, a mix of different assets provides a smoother and more stable ride for your portfolio. As an example, over the last week, many of our cash equivalents, bond, and alternative allocations were able to stem losses and even generate positive returns. We understand that this is a very short time frame, but very illustrative of the value of diversification.

If you have any questions or concerns, please do not hesitate to contact us directly.