SILVERCREST
ASSET MANAGEMENT GROUP

GETTING BACK TO NORMAL

The last four years of a rising stock market have been relatively calm and have led to some investor complacency, despite the economic crisis seven years ago. There have been no abrupt short-term declines and rather mild corrections. The recent market declines and volatility last week and yesterday, August 24, have historically been a more regular occurrence. Against a summer backdrop, last week's market activity may have felt concerning. The facts of history, however, say it was quite normal. Likewise, the path to long-term success—a carefully constructed portfolio and asset allocation—has not changed.

Weekly Declines

- A 5% decline for the S&P 500 in a calendar week historically has occurred slightly more than once per year.
- Prior to the week ended August 21, 2015, the most recent 5% weekly decline occurred the week ended September 23, 2011.

Monthly Declines

- A –10% decline for the S&P 500 in a calendar month occurs once every 33 months on average.
- The most recent –10% monthly decline occurred in February 2009.
- To date, it has been 78 months against a long-term average of 33 months. As of August 24, 2015, the S&P has declined –9.8% MTD.

Market Risk

- The Volatility Index, or VIX, recently moved above 30.
- This is a relatively normal occurrence. The VIX last moved over 30 in October 2014 and on several occasions from August 2011 to December 2011. The years 2007-2010 also saw periods with VIX over 30.
- The VIX often rises to levels of 30 and above.

Recoveries from Weekly Declines

From January 1929 to present, following a 5% calendar week decline in the S&P 500, returns for the next three-month period (12 weeks) are positive 52% of the time, with an average gain of +1.3%. The worst recoveries—or declines—following a large weekly decline occurred in the early 1930s.

- From January 1932 to present, returns are positive 59% of the time, with an average gain of +5.3%.

- From January 1970 to present, returns are positive 70% of the time, with an average gain of +4.7%.

The most noteworthy exceptions occur during a major recession or significant market risk factors such as for 1987, 2002 and 2008. These declines are included in the figures shown above.
We do not believe the U.S. economy is on the precipice of a recession, despite global dislocations. We take a longer strategic view and believe investors should maintain their established asset allocations for their particular risk and return profiles. It is well documented that asset allocation is the key driver of long-term investment results. When allocations properly reflect goals and objectives, investors should be well-equipped to weather this sort of market action. It is in this kind of market environment that many investors can most damage their portfolios and returns by trying to time the market and stray from carefully crafted investment allocations. It remains, as always, highly important to confirm that your asset allocation is set within the risk boundaries of your specific needs.

Maintaining Focus
Market volatility presents a good time to work with your portfolio manager to evaluate your risk tolerance and whether you are comfortable with the potential impact of market fluctuations on your portfolio. A proper allocation should provide comfort against a relatively common market decline of –5% on a weekly basis or –10% on a monthly basis. We have commented at length about how stock selection and a long-term investment horizon are critical to achieving favorable results. While several years of consistent, momentum-driven market gains may promote interest in simply "buying the market" through passive investing, active managers who use fundamental bottom-up security analysis perform quite well during dislocations as compared with passive indices. In fact, active managers have been outperforming indices dating since the fourth quarter of 2014. By maintaining your focus on a well-crafted and strategic asset allocation, the most recent broad selloff may ultimately benefit those who can see the opportunity through the noise.