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Market Update: Volatility Returns in a Meaningful Way

Date: February 7, 2018

On Monday, we experienced an equity market selloff of approximately 1,175 points on the Dow Jones Industrial Index[1], a continuation of last week's negative returns. We followed with a volatile trading session on Tuesday. The media has immediately jumped on the opportunity to produce grim headlines highlighting the largest single-day *point* drop in the Dow's history. Indeed, yet, the headlines were quick to leave absent the relativity of this statement; the fact is we have had much worse single-day *percentage* drops in the history of the Dow.

We will echo our thought in our January Market Note at the beginning of the year, which we saw come to fruition on Monday. The full version of our Market Note can be accessed on our website within the commentary section:

> We are uncomfortably in the camp of the markets moving higher in 2018 with the same caveat that volatility will increase in a meaningful way. We would not be surprised to see a correction…Yet, given the underlying fundamentals the market could have the ability recoup much of its gains and finish the year in positive territory.

This pullback, or correction, if you will, should not be surprising due to the longevity of the equity market melt up and lack of volatility during this period. In this abnormally low period of volatility and steady climb to the upside, especially for the year ended 2017 and January 2018, investors have seemed to become complacent to expect equity increases in perpetuity and numb to any radical moves in the market, such as we saw on Monday.

Just as the market overshot to the upside, it appears it has overreacted to the downside. There was little in the way of global or domestic headlines released that would typically cause a move of this magnitude. This leads analysts to search for a single reason for the drop in the market, and the fact that there is not, leads to speculation. We could be seeing investors simply taking profits off the table at a point where markets are trading at all-time highs. It may be that investor sentiment has reached a level that any crack in the foundation could be a cause to run for the

[1] Yahoo Finance

exit – sometimes a function of our inevitable, yet irrational, human nature. Market algorithms and technical computer programs may have added to the capitulating losses, triggered to sell the market as the S&P500 broke through its 50-day moving average[2]. The recent report of rise in wages and fear of money becoming more expensive through increased interest rates leading to higher inflation is also weighing on the minds of investors. In reality, the market move we have seen in the past week is most likely an integration of all the aforementioned factors combined.

It is easy to become nervous when reading fearful headlines and finding yourself in a reactive position. It is difficult to implement, maintain, and be confident in an allocation when overdue volatility hits and feels much more painful than it really is. We will not try to predict daily market movements, but we will continue to manage risk appropriately, be proactively nimble within the portfolio, and take advantage of measured opportunity when it presents itself.

We hope you find this helpful. As always, we welcome any questions, so please do not hesitate to reach out. Also, we encourage you to follow the Corbenic Partners page on LinkedIn for market news and updates. We appreciate your support and continued trust in the firm and look forward to speaking with you soon.

Sincerely,

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Managing Partner	Financial Advisor	Financial Advisor

[2] Yahoo Finance