Markets in a Minute:
Market Volatility

"I did not succeed in life because of intelligence. I did because I have a long attention span."

— *Charlie Munger*

Stocks and bonds have had a wild ride over the last couple of weeks. Since the end of the unimpressive first quarter, the S&P 500 index has dropped 12%, while the Nasdaq has fallen 18%. Perhaps more distressing has been the concurrent drop in bonds, with the Bloomberg Barclays Aggregate Bond Index declining 5% over the same period. Confirming this distress, one measure of volatility — the CBOE volatility index — is close to its high for the year.

Volatility may not be fun, but it is normal. The market regularly experiences declines. Despite those declines, the market has consistently rewarded those who can patiently see through the short-term volatility, much like the famed investor Charlie Munger and his long attention span.

In volatile times such as these, I'm in favor of a "back-to-basics" approach.

Declines in the S&P 500 Since 1946

Decline	# of Declines	Average Time to Recover in Months
5%-10%	84	1
10%-20%	29	4
20%-40%	9	14
40%+	3	58

Past performance is no guarantee of future results. Index: S&P 500 Index. Source: CNBC.

But first - what's driving this volatility?

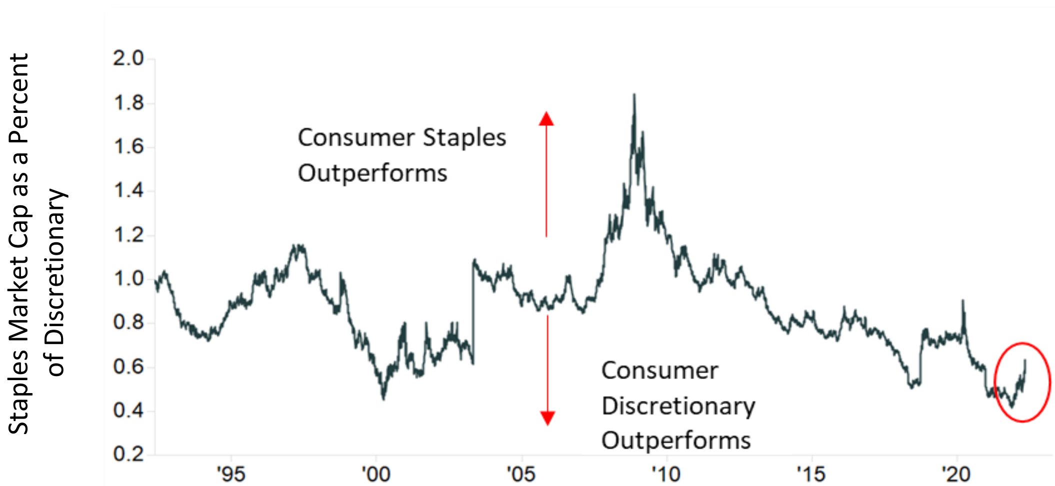
- *The Federal Reserve* – last week the Fed increased interest rates by 50 basis points (half a percentage point). While the move was expected, it still left markets in a state of confusion, trying to extrapolate any further tightening measures.
- *Inflation* – broad measures of consumer prices suggest prices are rising more than 8% year over year, eating into many of the wage gains that workers have begun to enjoy. Companies are also paying more for input costs, which in turn hurts their profit margins.

- *China* – China appears to be taking an even tougher stance on Covid-19, extending lockdowns and further threatening the Chinese economy and its global trading partners.

Important market shifts that began in late 2021 and early 2022 are still evident.

- *Value* – after nearly a decade of underperformance, value stocks, which tend to have lower valuations, have been outperforming their growth counterparts. Stocks with higher profitability and dividends have also had stronger returns than the broad market.
- *Defensive stocks* – sectors such as consumer staples and utilities have been leading the overall stock market. Faced with the specter of higher inflation, investors are gravitating toward what consumers *need*, rather than what they *want*.

Relative Market Value of Consumer Staples Sector to Consumer Discretionary Sector



Past performance is no guarantee of future results. Forward projections may not come to pass. Source: FactSet

So, what's an investor to do?

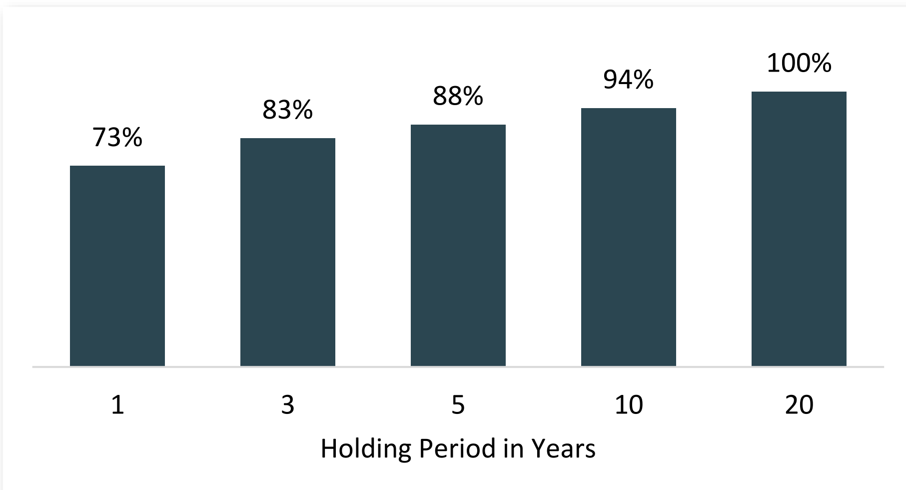
We began 2022 with a theme of "downshifting." It was clear that the economy would slow after incredibly strong growth last year, and a fading of both fiscal and monetary policy. The addition of the war in Ukraine and rising oil prices have created an even faster and more complicated downshifting.

(see next page)

A back-to-basics playbook for volatile markets:

- *Trust the process and maintain a long-term view* – While markets may react to the day's headlines, wealth is created over years. The longer an investment is held, the higher the chance of a positive return.

US Large-Cap Stocks: 1928-2019
Percentage of Time US Large-Cap Stocks Had Positive Returns, By Holding Period



Past performance is no guarantee of future results. Forward projections may not come to pass. Source: Brian Feroldi

- *Don't chase fads* – many "meme" stocks that enjoyed spectacular gains in the early months of the pandemic have now returned to Earth. Rather than chasing those names that have gotten headlines, focus on companies with attractive valuations and high-quality earnings, such as consumer staples stocks. These types of businesses have a history of withstanding short-term vagaries in the market and reliably delivering returns to shareholders even when the road gets bumpy.
- *Take your portfolio in for a check-up* – As we wrote earlier this year, it is essential that your portfolio reflect your financial goals and risk tolerance. Your advisor can ensure that your portfolio is properly positioned despite rapid changes in the market.

(for Important Disclosures see next page)

Important Disclosures

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