LORING WARD

Investment Committee Special Briefing

The Market in Perspective

Although down markets are a normal and expected part of the investment process, they are a challenge — especially emotionally.

Last week (ending January 8), the S&P 500 dropped 5.91% and the MSCI EAFE (a major International market index) was down 6.14%. And the financial media has been full of dire, in some cases apocalyptic, headlines.

Against this backdrop, we think it makes sense to take a step back and take a look at what really has been happening with the global market and what this may mean for long-term investors.

Uncertainty In Chinese Credit Markets

China devalued its tightly controlled currency last week, which tumbled stock markets across the region. Devaluation is being seen as a sign that the Chinese economy may be sputtering, which certainly has major implications for the U.S. and other countries that trade with China. All of this has put pressure on other central banks to push down their own currencies to help their own exporters.

For more information on Chinese Markets, visit our blog: Things That Make You Go Hmm About Indexing

Uncertainty About Future Fed Rate Hikes

With the declines in China's stock market, investors may have been betting that the Fed would hold off on a rate hike until June. The strong growth in jobs report released last week is being taken as sign that the Fed will hike rates again, soon.

For more information on Fed rate hikes, visit our blog: Fed Shifts to a Policy that is still Stimulative but a Tiny Bit Less So.

Other Factors

- Uncertainty in crude oil, energy, and other commodity prices
- Mideast turmoil
- Potential tax-loss harvesting

While news outlets such as Bloomberg and The Wall Street Journal are reporting the recent performance as the worst start to the year on record for the S&P 500 and Dow Jones Industrial Average, volatility and negative returns are actually quite common, as you can see from the table below.

This table shows the number of weeks from 2000 to 2015 that the S&P 500 and MSCI EAFE have declined, and by how much. For example, there have been 18 weeks during this 16-year period when the S&P 500 dropped by more than 5% and 18 weeks when the MSCI EAFE has dropped by more than 6%.

Down Weeks for the S&P 500 and MSCI EAFE (2000-2015)

	Weekly Negative Returns			
	3%	4%	5%	6%
S&P 500	68	41	18	15
MSCI EAFE	76	43	27	18

Past performance does not guarantee future results. Indexes are unmanaged baskets of securities in which investors cannot directly invest; they do not reflect the payment of advisory fees or other expenses associated with specific investments or the management of an actual portfolio.

This is why we build portfolios aimed to withstand short-term volatility and maximize long-term growth. We do this by:

- Focusing on reducing portfolio risk. Using short-term, high quality bonds helps reduce overall portfolio risk and can protect from rising interest rates
- Diversification. Being invested in 8,000+ stocks and bonds, with exposure to 45 different countries and 35 different currencies, helps protect the portfolio from specific company or country risks
- Higher dimensions of expected returns. By tilting portfolios to areas that have higher expected return over the long term (Small, Value and more profitable companies)

The bottom line: While there is a lot of uncertainty right now which markets are reflecting, markets are continuing to function properly and are incorporating information efficiently. And capitalism remains alive and well.

We're human, and gloom-and-doom economic headlines are never enjoyable.

But the only headline that matters is the one you will never see on CNBC or read in the newspapers:

"Mr. & Mrs. Investor stayed invested in a globally-diversified portfolio that helped them achieve their long-term goals."

No one — not talking heads on TV, government economists or seasoned investment professionals — knows what the future holds in store. But the further we look out, the more confident we can be that the portfolios Loring Ward provides are built and managed to optimize the long-term growth potential of markets around the world and help investors we work with get where they want to go.