# EYE ON THE MARKET

## Recent Market Movements: Lessons Learned from Charlie Brown, Linus, and Schroeder

**Peter Greenberger, CFA, CFP®, Director, Mutual Fund & 529 Plan Product Management**

Howard Marks, Co-Chairman of Oaktree Capital Management, noted the following in late January about current market conditions:

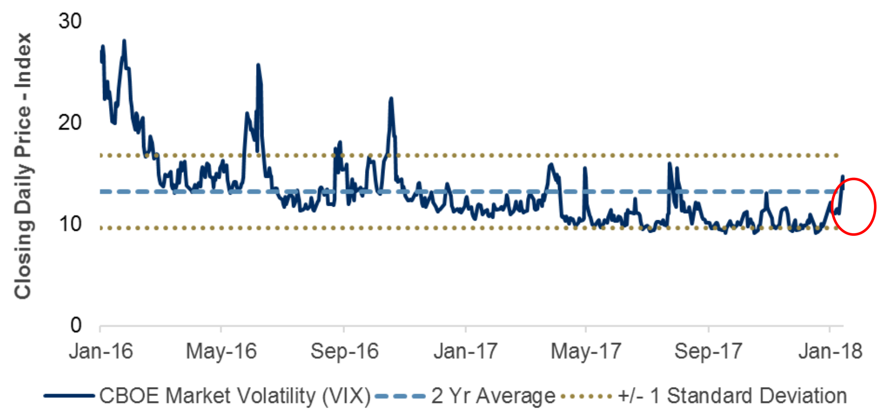
***"When markets do too well for a while – that is, when equity returns far exceed the growth rate of companies' profits, and when bonds return more than their promised yield to maturity – it usually means they've become overpriced and will correct sooner or later."***

The last few weeks are likely the "sooner or later" to which Marks was referring. Eye on the Market ("EotM") agrees with this sentiment and believes that for those who have developed a sound financial plan, this could serve as an opportunity to reassess current portfolio positioning and take advantage of market dislocations.

### GOOD GRIEF

After nearly nine years of almost unimpeded upward growth in the U.S. equity markets, many investors were lulled into believing it would continue. What investors seemed to forget was that equity markets are naturally volatile. Chart 1 shows the movement of the Chicago Board Options Exchange ("CBOE") Volatility Index ("VIX") over the last two years. Even with the recent pick up in volatility, the index remains just above its two-year average.

**CHART 1** ***CBOE MARKET VOLATILITY INDEX (VIX) LEVEL***
***JANUARY 26 - PRESENT***




Source: Morningstar Direct and Raymond James

The CBOE Volatility Index (VIX) shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. The VIX is a widely used measure of market risk. It is not possible to invest in an index.

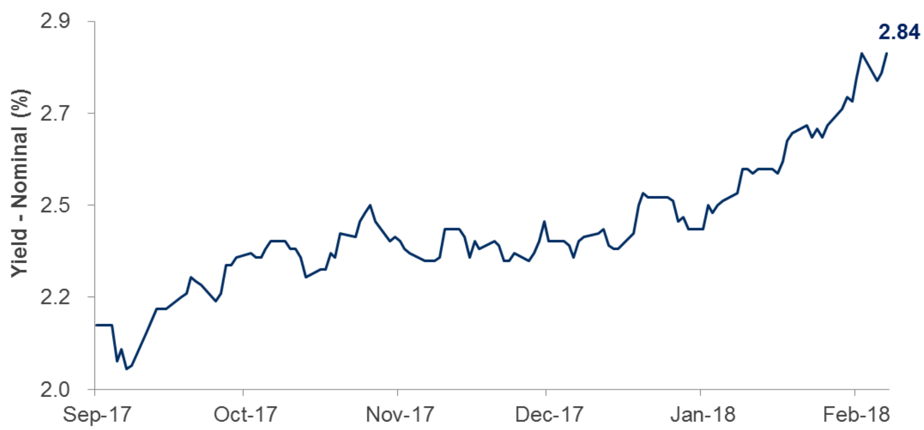
It is worth noting that since January 2017, the VIX has remained subdued with only intermittent periods when it spiked. This extended period of "quiet" may have left investors somewhat complacent as they watched equity prices steadily climb and their account balances rise. Investors should be aware and prepared for market volatility, just as Charlie Brown should know that Lucy **will** pull the football away from him when he goes to kick it.

## BLANKET STATEMENTS

Since the financial crisis, monetary authorities around the world have kept interest rates artificially low. These actions helped the global economy to recover and, more recently, the Federal Reserve Open Market Committee ("FOMC") has increased interest rates in at a very measured pace. Given the economic strength in the U.S., market participants have become concerned that the pace of interest rate increases may quicken as the FOMC attempts to keep the economy from growing too rapidly.

**CHART 2**

**10-YEAR U.S. TREASURY YIELD**
*SEPTEMBER 2017 -PRESENT*




Source: St. Louis Federal Reserve and Raymond James.

With this in mind, it is instructive to look at the increase in the yield on the 10-year U.S. Treasury bond. After ebbing and flowing over the last several years, the 10-year is currently 2.84%, a level not seen since 2014. Again, many investors became conditioned to believe lower interest rates would remain and subsequently invested in risk-based assets, such as high-yield bonds.

The "willful blindness" of investors to seek yield could present challenges given the inverse relationship between yields and prices. For those investors that did not take undue risk, they can likely find comfort in this, just as Linus found comfort in his blanket.

## LET THE MUSIC PLAY

For those readers of EotM who have followed the Peanuts cartoons, Schroeder never stops playing the piano regardless of the conditions around him. In the same vein, investors who have developed a sound investment approach should monitor market movements but not make any rash decisions. More importantly, EotM believes that the recent pull back could serve as an opportunity to allocate capital to asset classes that have become more attractive, given recent price declines.

One of the key considerations Mutual Fund Research ("MFR") takes into account when evaluating managers is the level of discipline they have in executing their investment process. MFR seeks to find management teams that can keep on playing regardless of the distractions around them. EotM is of the opinion that this is an attribute all investors should focus on, whether they manage their own investments or rely on a professional money manager.

## SIDE NOTE

Charles Schulz initially named his comic strip *Li'l Folks*. It was changed in 1950 to *Peanuts* by United Feature Syndicate. Per the Charles M. Schulz Museum, "The name *Peanuts* was likely chosen because it was a well-known term for children at the time, popularized by the television program *The Howdy Doody Show*, which debuted in 1947 and featured an audience section for children called the Peanut Gallery."

## DISCLOSURE