Nicholas Hoffman and Co.

Market Volatility – What To Do

Last week investors witnessed extraordinary volatility in the global equity markets. In the past 16 days the S&P 500 Index declined 18% before rebounding almost 5% on Tuesday, after the Federal Reserve confirmed short term rates would not be raised until mid-2013. Another sudden fall today, the speed and strength of market movements have alarmed investors and traders alike. Just when one thinks there is stability market volatility resumes.

As these more turbulent times unfold we are asking ourselves if the economic fundamentals have changed. We believe the short answer is "no". The plans of McDonalds to open new stores in China did not evaporate because of volatility, the need for Caterpillar earth moving equipment to build roads in Brazil did not suddenly go away as the market sold off, and the hunger in the bellies of the third world populations for the products of companies like Kraft, Heinz and General Mill's did not diminish because of volatility. The fundamentals of strong companies have not deteriorated in the last few weeks!

Some perspective on the current market environment.

- No one was expecting this level of market turbulence – the traders have been taken as much by surprise as the long term investor. The trigger seems to be the frustration with Washington over no coherent fiscal policy to manage our debt levels and concurrently stimulate economic growth and greater employment.
- This market decline has not been caused by a change in fundamentals. While nominal GDP has been tracking 4% in the first half of 2011, corporate revenue and earnings growth has been 11% and 18% respectively over the same period. The ability of corporate management to continue this profit trend should not be underestimated.
- This extreme volatility should not deter long term equity investors from remaining focused on the underlying quality of the businesses in which they invest. That is where long term value will be generated.
- Volatility will not go away soon, if ever, nor can we expect a rapid return to the mid July market levels.

- These markets inevitably present opportunities as well as risks.

So what should the investor do? Any actions are obviously dependent on the risk appetite of each individual but here are some thoughts depending on individual circumstances:

- For the investor with available cash this is the time to begin deployment of some of those liquid assets, perhaps with the discipline of a "dollar cost averaging" approach to reduce timing risk as the markets continue to fluctuate. The best times to buy never "feel" good.
- The volatility of the equity markets reinforces our belief and strategy in diversifying portfolios with alternative investments in areas such as real estate, or private debt and private equity.
- Our clients who are fully invested in the equity markets should use this time period to discuss with us any changes to either your tolerance for risk or projected cash needs.

The recent developments in the market have once again shown that a commitment to a personal strategic plan is the best course of action to overcome the short term unpredictability of the markets. Our full attention is focused on the current events in the market and we are available should you have any additional questions.

Nicholas Hoffman & Company
August 10th, 2011