November 2018 Monthly Market Update

Global equity markets climbed the last two trading days of October to finish out an otherwise brutal month. Broad equity indexes around the world were in or near correction territory on October 29, but two strong days eased losses. US stocks fell 6.8% in October, their worst month since September 2011. Foreign equity markets also dropped in October—developed international and emerging-market stocks fell 8.6% and 7.7%, respectively.

October Benchmark Returns	MTD	QTD	YTD
EQUITY BENCHMARKS			
Vanguard 500 Index	-6.8%	-6.8%	2.9%
iShares Russell 1000 ETF	-7.1%	-7.1%	2.5%
iShares Russell 1000 Value ETF	-5.2%	-5.2%	-1.7%
iShares Russell 1000 Growth ETF	-8.9%	-8.9%	6.4%
iShares Russell 2000 ETF	-11.0%	-11.0%	-0.7%
Vanguard REIT	-3.0%	-3.0%	-2.6%
iShares MSCI ACWI ETF	-7.4%	-7.4%	-3.6%
Vanguard FTSE Developed Markets ETF	-8.6%	-8.6%	-10.1%
Vanguard FTSE Europe ETF	-7.9%	-7.9%	-10.0%
Vanguard FTSE Emerging Markets ETF	-7.7%	-7.7%	-15.9%
FIXED-INCOME BENCHMARKS			
Vanguard Total Bond Market Index	-0.7%	-0.7%	-2.4%
Vanguard Intermediate-Term Tax-Exempt	-0.6%	-0.6%	-1.0%
iShares TIPS Bond ETF	-1.5%	-1.5%	-2.4%
ICE BofA Merrill Lynch U.S. High Yield Cash Pay Index	-1.6%	-1.6%	0.8%
S&P/LSTA Leveraged Loan Index	-0.0%	-0.0%	4.0%
ALTERNATIVE BENCHMARKS			
HFRX Global Hedge Fund Index	-3.1%	-3.1%	-4.3%
Bloomberg Commodity Index	-2.2%	-2.2%	-4.1%
SG Trend Index	-4.3%	-4.3%	-7.3%
3-Month LIBOR	0.2%	0.2%	1.7%

The recent volatility in the markets has understandably come with questions, such as, "Is this the start of deeper losses to come?" and, if so, "What changes are being made to portfolios?" We don't know whether or not October is the start of further losses. However, we do know that stocks are volatile and, at times, go down, despite what we've seen over the last nine years. We are confident that the United States will have a recession again that will take most market participants by surprise, and it will correspond with sharper market declines than what was seen last month. It would be at this point (assuming such price declines imply attractive expected *future* medium- to longer-term returns) that we would look at this as an opportunity to increase our exposure to US stocks.

The wide range of stock market outcomes over brief time periods (see chart below) makes it nearly impossible to predict what will happen next month, next quarter, or next year. Even if you do get it right once, and sidestep a large market decline, you'd have to make another successfully-timed bet getting back in. We don't think this is a repeatable investment strategy that would be successful over a long-term investment horizon. In a given 12-month period, US stocks have increased by as much as 61% and fallen as much as 43% since 1950. However, the range of outcomes for stocks narrows the longer an investor's time horizon. For example, over 20-year periods, the market return has ranged from a positive 6% at the low-end to 18% at the high-end. But to enjoy those positive long-term returns you had to remain disciplined and stay the course during the inevitable painful/scary shorter-term market drops.

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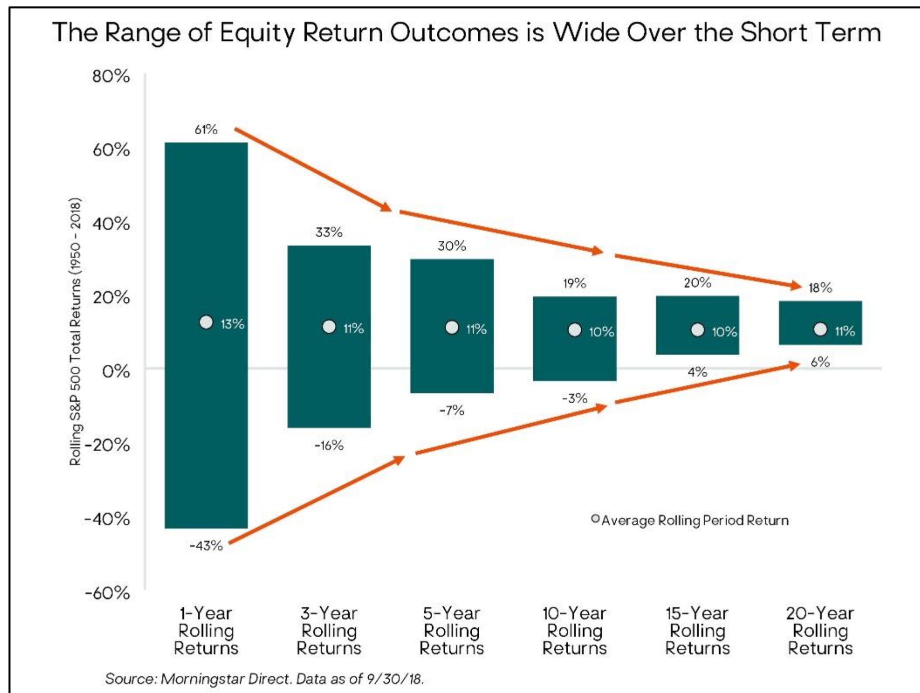

The market turbulence in October has not led us to make any portfolio changes that we weren't already discussing. Though there were many negative headlines and various things to seemingly be concerned about, US stocks only fell about 10% from their highs in September (after rising nearly 400% since March 2009). This 10% drop from all-time highs might have made US stocks attractive for market participants looking to bet on the next quarter, or next year, but it has yet to offer an attractive investment opportunity for investors with a five-year (or longer) time horizon.

Beyond the stock market, October may have felt more volatile than usual due to losses in fixed-income markets, which many investors rely on to offset equity losses. US core bonds fell 0.8% in October, while high-yield bonds fell 1.6%, and floating-rate loans had very small losses. A 60/40 portfolio of US stocks and core bonds fell over 4% in October, which is one of the larger drawdowns in the post-financial crisis period. It remains our expectation that low starting bond yields are unlikely to offset equity market losses to the same extent we've historically seen during bear markets. This is one reason we have invested in an array of alternative investments.

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