



Global stock markets are experiencing volatility not seen since this time four years ago. This morning's indiscriminate selling seemed to dominate trading, likely driven by algorithmic trading programs, pushing the S&P 500 Index down greater than 5%. U.S. markets finished the day down 3% - 4%.

Trading action at the end of last week and today can be challenging for investors' sentiment. Until last week the market traded in a fairly narrow (sideways) range for the better part of a year. Selling pressure that began last week and continued through today was reminiscent of August 2011. Both periods were predicated on a slowdown in global growth. The U.S. equity market experienced declines of 11% within ten trading days four years ago but quickly rebounded and extended gains for over 1,400 calendar days without a correction of 10%. We frequently highlight market corrections are more frequent than not, and it was only a matter of time before another correction occurred.

Recent economic data from China and other emerging economies, coupled with the continued sell-off in commodities, has some investors questioning the sustainability of global economic growth. Broad economic data suggests a divergence in growth between the developed world and emerging world. The U.S. and Europe have reported economic results of late that continue to indicate growth, albeit slow. In particular, the U.S. economy continues to show an improving labor market, rising housing starts and record auto sales. We believe these three data points alone are positive signals about the health of the U.S. consumer and overall economy.

This past quarter, euro area domiciled companies reported reasonable earnings growth. Earnings growth was 4% year-over-year, but when subtracting out the weak energy sector, earnings growth was 22%. As the European Central Bank continues their quantitative easing program, Europe will likely react positively to the stimulus.

Volatile markets present opportunities to reallocate capital to depressed investments. This should be managed in the context of both tax consequences and risk. We do not believe fixed income provides a good risk reward profile beyond any short-term horizon. The 10-Year Treasury Yield now stands at 2%. With inflation averaging around 1.5%, investors will receive a real return of .5% annually over the next ten years. Currently, U.S. high quality stocks pay dividend income rates that have yields higher than the 10-Year Treasury with substantially higher upside.

This heightened volatility may be an opportunity to add to high-quality investments selling at discounted prices. We believe in a pragmatic, long-term focus and maintain a prudent investment discipline that is representative of long-term goals and objectives. While it is difficult to predict how much the markets might correct, we believe the backdrop for continued equity gains will remain intact over the intermediate term.

If we can answer any questions or you have specific thoughts, please do not hesitate to contact any of us at HORAN Capital Advisors.