HORAN CAPITAL ADVISORS

Commentary

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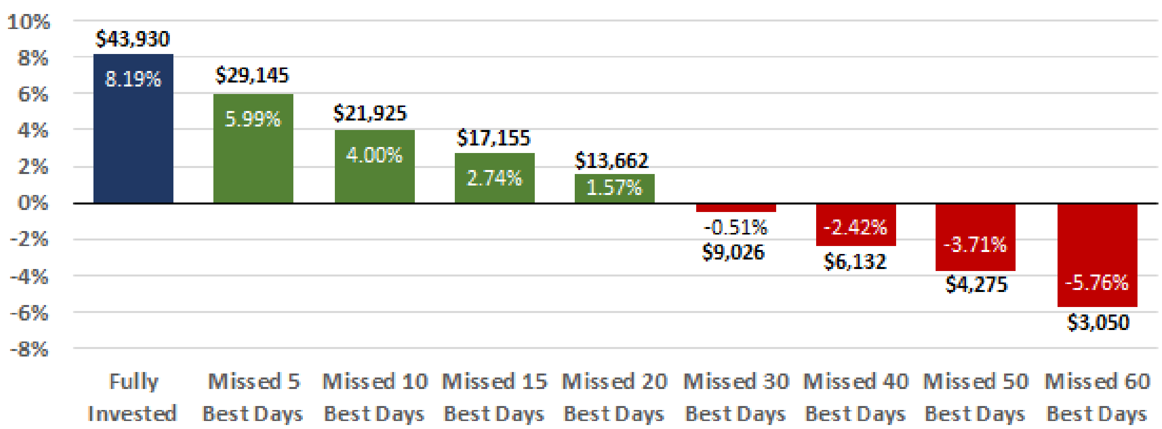
In January 2016, we published commentary related to market volatility that began in late 2015 and carried forward into the new year. The following is an excerpt of what we wrote nearly three years ago and much of this could easily be said today:

> *"Global stock markets, similar to this past October, are experiencing volatility driven largely by geopolitical events in China, North Korea and the Middle East. The markets are also reacting to signals of a potential global economic slowdown. From a fundamental perspective, U.S. corporate balance sheets are strong with companies holding near record levels of cash, consumer balance sheets are strong and the employment level in the economy continues to improve."*

The S&P 500 Index decline over 10% in the beginning of 2016 and bottomed in mid-February of that year. Once this bout of volatility subsided, the S&P 500 Index went on to generate a calendar year return of 10% for investors; that was up 20% from its early year low. Going back to 1980, the average intra-year market decline experienced by the S&P 500 Index is negative 13.8%. Yet, the market generated a positive return in 29 of the 38 years since 1980.

The difficulty with unsettled market periods is they are hard to predict or time. It is often stated investors benefit most from 'time in the market versus timing the market.' An example of the potential consequence of attempting to time the market can be seen in the below graphic.

Timing The Market Could Be Costly
S&P 500 returns and the Growth of $10,000 over 20 Years (1996-2016)



Source: Morningstar, Calamos Investments. Data ranges 1/1/19996 through 12/31/2016.
Past Performance no guarantee of future results

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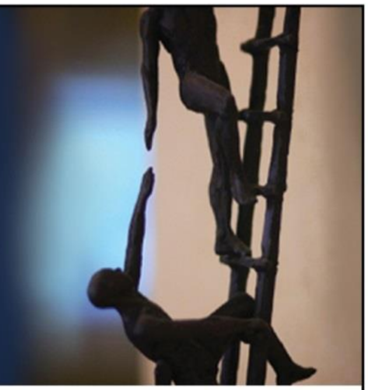

It is sometimes said the economy is not the market and vice versa. Nonetheless, much of the data continues to support a growing economy. Last week the first reading for Q3 2018 GDP was reported at a respectable 3.5%. This reading follows a healthy 4.2% GDP reading in Q2 2018. Some pundits took issue with the inventory growth within the report, but later revisions to GDP may adjust this figure. Our recent quarterly Investor Letter highlights several additional positive data points.

From an earnings and revenue perspective, S&P 500 companies are reporting results that are above the 5-year average and above expectations. According to Factset, “To date, 48% of the companies in the S&P 500 have reported actual results for Q3. Companies are outperforming recent averages on the earnings side and performing in line with recent averages on the revenue side. In terms of earnings, the percentage of companies reporting actual EPS above estimates (77%) is above the 5-year average. In aggregate, companies are reporting earnings that are 6.5% above the estimates, which is also above the 5-year average. In terms of sales, the percentage of companies reporting sales above estimates (59%) is equal to the 5-year average. In aggregate, companies are reporting sales that are 0.8% above estimates, which is slightly above the 5-year average. The blended (combines actual results for companies that have reported and estimated results for companies that have yet to report), year-over-year earnings growth rate for the third quarter is 22.5% today, which is above the earnings growth rate of 19.4% last week. The blended, year-over-year sales growth rate for the third quarter is 7.6% today, which is above the sales growth rate of 7.4% last week. Positive revenue surprises reported by companies in multiple sectors were responsible for the slight increase in the overall revenue growth rate during the week. All eleven sectors are reporting year-over-year growth in revenues.” In short, the earnings and revenue reports are indicative of a favorable economic environment and one that does not seem to be facing a recessionary downturn.

In summary, this level of market volatility is in line with historical levels of market volatility and in part a reflection of the market adjusting to the higher move in interest rates. We believe interest rate levels are not at a height that tips the economy into recession looking out 12-18 months. And finally, uncertainty surrounding the midterm election outcome will be resolved in less than two weeks. The market may rejoice in the fact the election is simply in the rearview mirror at that time. Please don’t hesitate to contact us with any questions you may have related to the market or your portfolio.

Respectfully,

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