

# Perspectives

Fourth Quarter 2017

## Understanding the Volatility of Equities ... and our Emotions

By Ryan George, AVP, Marketing and Communications at 1st Global

Have you or someone you know purchased an expensive home because it's the one you've always dreamed about? You imagined your children playing in the yard or everyone gathering under one roof for the holidays. Could you afford it? Was it the right decision financially? When emotions run high, people tend to make choices they wouldn't necessarily make if they had taken time to think through their actions properly beforehand.

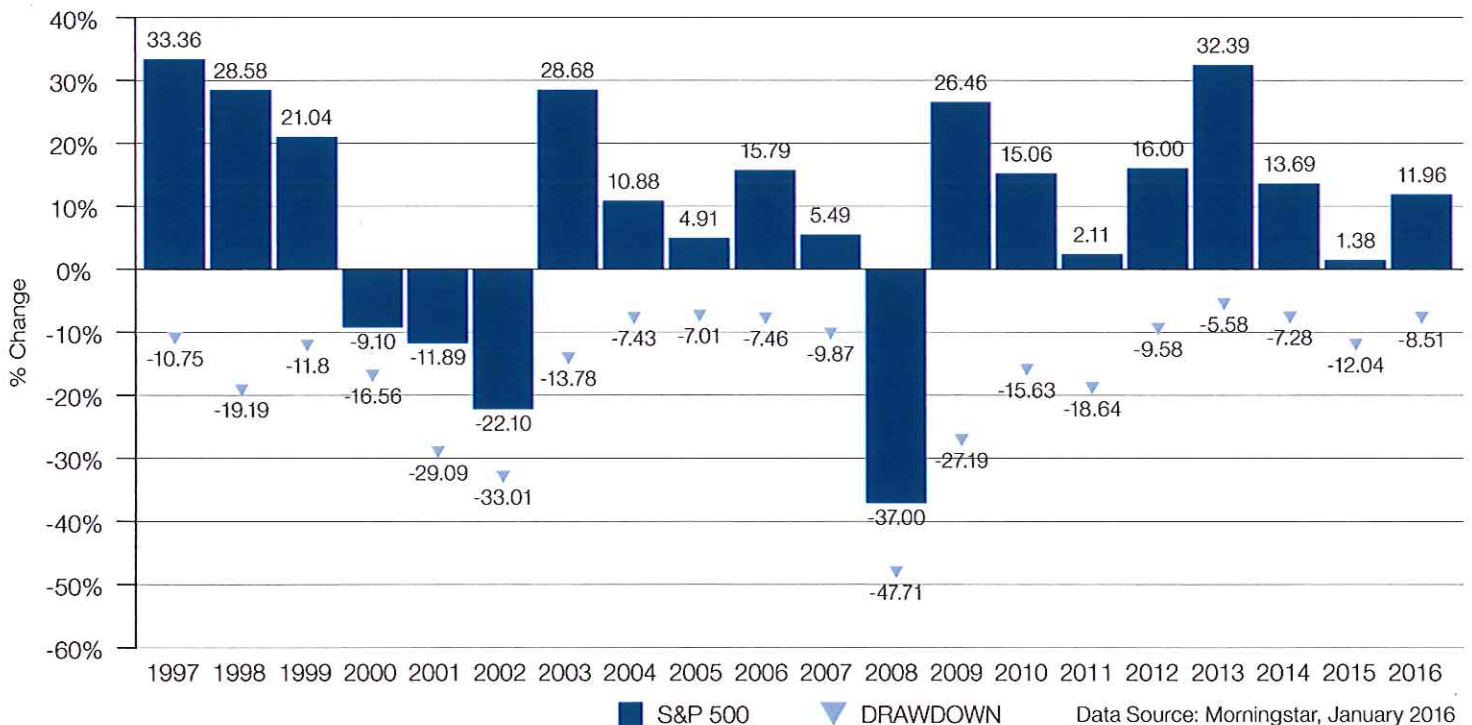
This phenomenon can be especially true for how investors react to the latest headlines pertaining to the markets — when the market dips, some individuals neglect long-term perspective and focus only on the immediate issue. However, in many cases, this volatility is simply the price to pay to potentially capture the long-term returns. Historically, many of the market's largest one-day gains came right after some of the largest one-day losses — in fact, five of the top 10 gains have followed top 10 declines.<sup>1</sup>

Nearly all investors with long-term investment plans have some degree of exposure to stocks, and it's important they understand that equity returns can be quite volatile during any given time. The chart below helps illustrate the level of volatility that can be expected from stocks, even in "good" years.

For example, the market has dropped 7 percent or more at some point during 19 of the past 20 calendar years. In fact, the market experienced a 10-percent or more intra-year drop (or drawdown) in 12 of the past 20 years. This means that volatile periods don't just happen from time-to-time; significant drops in value tend to occur every single year.

The antidote to our emotions is to expect them. When volatility inevitably arises, it's important investors stay focused on their core principles so their worries don't lead to their detriment. Patience is key. While activity in the markets fluctuates on a daily basis, your long-term goals should remain steadfast.

You don't have to navigate these ups, downs, anxieties and moments of euphoria alone. Having conversations with a financial professional plays a significant role in keeping you on track for your future. By professionally planning based on your long-term goals and needs, your financial advisor can help ensure you don't place too much emphasis on day-to-day market behavior and can keep you from being enticed to "time" the market.



<sup>1</sup> "Biggest One-Day Gains, Losses." The Wall Street Journal Market Data Center.

The chart assumes reinvestment of capital gains and dividends and no taxes. Past performance is not indicative of future returns.

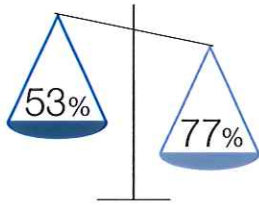
S&P 500 Index is a market capitalization-weighted price index composed of 500 widely held common stocks. The index is unmanaged and not available for direct investment.

# 6 of 10 Reasons to Consider Investing In International Equities

By OppenheimerFunds®

The case for international equities isn't a "why now" argument, it's timeless. OppenheimerFunds outlines 10 reasons to consider investing in international equities, we've highlighted six below. Please view the full infographic linked below.

## 1 Many Investors' Portfolios Are Biased Toward Domestic Equities



U.S. stocks are 53% of global equity market cap  
— BUT —  
Make up 77% of U.S. retail investors' equity portfolios<sup>1</sup>

## 2 A Bigger Opportunity Set

# 75%

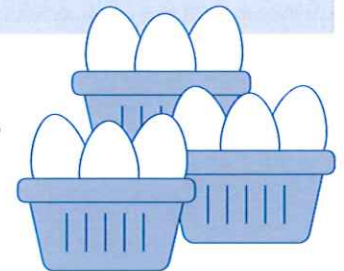
The percentage of the world's companies with \$1B or more in market cap located outside of the U.S.<sup>2</sup>

## 3 U.S. Share of World GDP Is Small—and Expected to Get Smaller<sup>3</sup>



## 4 Diversification

Decades of academic research supports **diversifying a portfolio across different asset classes** to reduce risk and potentially enhance returns.



## 5 The Best Performing Market Each Year Is Typically Outside of the U.S.

# Zero

The number of times the U.S. stock market has been the best performing market in the world over the last 25 years.<sup>4</sup>

## 6 Performance Leadership of U.S. or International Market Outperformance Typically Runs in Cycles

# 12

The number of **alternating leadership cycles** in the performance of international equities relative to U.S. equities since 1971, as measured by the **MSCI EAFE Index** and **S&P 500 Index**, respectively, with periods of leadership often lasting years.<sup>5</sup>

For more information and to download the full infographic go to <https://www.oppenheimerfunds.com/advisors/article/10-reasons-to-consider-investing-in-international-equities>.

<sup>1</sup> FactSet, as of March 31, 2017. Weights in MSCI All Country World Index—by region. Morningstar as of 3/31/17. Includes U.S. Open-End and ETF ex MM and FOF assets. The World Stock category is split to reflect March 31, 2017 asset allocation: 48 percent into U.S. Category Group, 48 percent into International Developed Category Group and 4 percent into Emerging Markets Category Group. U.S. Domiciled Fund and ETF Equity Assets—by region. Analysis excludes institutional share class assets as defined by Morningstar.

<sup>2</sup> Bloomberg, March 31, 2017. Data depicts the common shares of actively traded stocks.

<sup>3</sup> FactSet, Dec. 31, 2015. OECD, Sept. 30, 2015. Estimates may not be achieved. Latest data available

<sup>4</sup> FactSet, Dec. 31, 2016. Based on calendar year price return (in USD) for each MSCI country index represented in the MSCI ACWI ex-USA and the S&P 500 Index. Past performance does not guarantee future results.

<sup>5</sup> Morningstar, March 31, 2017. Past performance does not guarantee future results.

The above views represent the opinions of OppenheimerFunds, Inc. and are not intended as investment advice or to predict or depict the performance of any investment. Please view the full infographic for our full viewpoint.

International investing has certain risks not associated with investing solely in the U.S. These risks include fluctuations in the value of the U.S. dollar relative to other currencies, custody arrangements made for foreign holdings, political risks, differences in accounting and the amount of information disclosed by non-U.S. exchange-listed companies. Investing in emerging markets involves greater risks as well. Such risks include currency exchange rates, political and economic upheaval, lack of information about companies, poor liquidity, and differences in accounting standards.

The S&P 500 TR Index is a free-float market capitalization index of 500 large publicly held U.S.-based companies, capturing 75 percent coverage of U.S. equities. It is often used as a proxy for the American stock market.

The MSCI EAFE GR Index (Europe, Australasia, Far East) is a free float adjusted market capitalization index that is designed to measure the equity performance of 22 developed markets, excluding the U.S. and Canada. The MSCI EAFE Index is commonly used as a benchmark for equities representing the developed world outside of North America.

The MSCI ACWI (All Country World Index) is comprised of stocks from 46 different countries. There are 23 countries classified as developed markets and 23 countries considered emerging markets.



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