Barron's held its inaugural Top Independent Women Advisors Summit in New Orleans on May 18-20. The purpose of the summit was to bring together the very best independent women advisors in the industry to share unique ideas and perspectives. The summit's goal was to help women independent advisors drive the wealth management industry to greater heights for the benefit of clients.

Below are our notes from the session on ***Market Volatility: The Best Course for Navigating the Current Market Environment.*** The session was moderated by Barbara Archer, President and Founder of Archer Wealth Management and led by Samantha Azzarello, Vice President and Global Market Strategist on the J.P. Morgan Funds Global Insights Strategy Team and Judith Ward, Senior Financial Planner and Vice President of T. Rowe Price Investment Services.

What's behind the market weakness?

Since August 2015 when the market dropped a jarring 12%, it's been a bumpy market ride. While there are a lot of sources of weakness in the markets, earnings are the linchpin. Noise surrounding the markets include the slowdown in China, plummeting oil prices and U.S. recession fears. But, earnings are at the heart of market moves.

Expectations for future stock market returns and volatility.

Since the 2009 bottom, the S&P 500 index has had an amazing run from the 666.79 close on 3/6/2009 to 2,058.35 on 5/20/2016 including the 30% gain in 2013, 13% in 2010 and 11% in 2012 in 11%. These incredible market returns, may mean we have borrowed from future returns.

The chart on page 11 of J.P. Morgan Asset Management Guide to the Markets 3/31/2016 shows that despite average intra-year peak to trough drops of 14.2% over the past 35 years, investors have been rewarded for staying in the market with positive annual returns in 27 of the last 35 years. In other words, eighty percent of the time, the market provides positive returns--really good odds, but you need to stomach the volatility. On average, peak to trough declines of 15%--something we have not seen since 2011--are normal. We're veering back to that kind of volatility and expect volatility to revert back to the mean.

Despite this year's volatility with an 11% peak to trough decline, the market is up 1% year-to-date. Given all this, J.P. Morgan's Asset Management team believes future stock market returns will be positive, but muted at 5% to 8%, not terrible returns, but not amazing either. Return picture will be coupled with more volatility, which is normal. Broad market exposure will not be the best game in town, even though it has worked in the past.

Are we headed for a bear market?

Yes. We are heading for a bear market, at some point in the future. Is it tomorrow, a month from now, two months from now? We just don't know. Nothing imminent. But absolutely, there will be a bear market in our future. So, it is important to set expectations for investors. Focus on the things in your control. Investors can't control China's economic growth or commodity prices, but they can control savings and spending, asset allocation, portfolio construction and communications with clients. Focus on what you and your clients can control.

What equity market opportunities do you see?

Despite the expectation of muted U.S. equity returns with more volatility, JP Morgan Asset Management is still optimistic and sees lots of opportunities in many different places. Even if we are not in a raging bull market, they see solid equity returns ahead. Investors should not move to cash or be scared, but should just realize there will be more volatility. Volatility is normal. Looking ahead, investors increasingly will need to be selective. Broad market exposure while it worked well in the last 4 or 5 years, will not work as well going forward.

Look at broader trends. Yield is scarce in the world. Seventy percent of the global bond market has a yield of less than 1%. Thirty percent of the global bond market has a negative yield. This is mind boggling. Low interest rates are pushing investors toward a certain path, investments in dividend payers, which is not a new story. Samantha and her team do not like stocks that are already paying dividends (they have had quite a run), but domestic dividend growers--companies with low payout ratios and lots of cash on the balance sheet that will increase their dividends. Companies with low payout ratios will be incentivized by the markets to increase their payout. Thus far, the market has rewarded companies with 5% dividend yields. With low payout ratio stocks, you can catch capital appreciation as dividends are increased. That's the domestic story.

There is also a story abroad. While JP Morgan Asset Management sees more upside in U.S. equity markets, they see more opportunity in Europe, which is basically five years behind the U.S. from a business cycle perspective. Large swaths of the world are out of sync, which is rare. Normally, markets move in tandem. JP Morgan Asset Management sees more upside in cyclical European stocks.

Emerging markets may be tipping into recession and "crisis cheap" stock prices with price to book values less than 1.5 times, which has been a good entry point in the past for long-term investors.

T. Rowe Price's work with client data.

In addition to managing mutual funds sold directly to consumers, T. Rowe Price provides record-keeping services to more than 2 million defined contribution plan participants. T. Rowe Price researchers recently dug into the data to determine how these investors respond to market downturns. During the 10 worst days for the stock market, less than 2% of the 2 million transacted. Researchers also wanted to know how that compared to past downturns. Last August, when the market dropped 6% in one week, the headlines would have made you think the sky had fallen. Phone volume increased and web traffic was up, but less than 1.5% of the 2 million people transacted. Clients were checking balances, but were not altering their positions. This fact points to the importance of engaging with clients during periods of market volatility.

Sentiment from a March survey indicated investors were concerned about volatility. Of the 401K clients, fifty percent were concerned about volatility and long-term performance, yet three-quarters said they were not planning to make any changes. Of T. Rowe Price's retail clients, only 25% of retail clients were concerned about volatility and long-term returns. Three quarters said they would not make changes.

There was a period post-2008 with a spike in activity. (2008 is still burned into investors' minds and serves as a benchmark for volatility.) The other spike in activity, when the market declined by 19% to 20%, occurred after the U.S. credit was downgraded in 2011. That was the last time there was a spike in exchange activity, even then it was less than 3%.

What were investors doing during that time period? Most moved from stock funds to bond funds, only 10% went to cash. Most of those who moved to cash were 50 to 65 year-olds, a move they likely should have done earlier.

What will the next recession look like?

While the Great Recession of 2008 is burned into investors' minds, it was not a typical recession or bear market. During most recessions, the market drops 20% to 30%. The peak to trough drop in 2009 was about 50% and the slow economic grind back from the Great Recession was also not typical.

Samantha likened the post Great Recession U.S. economy to riding a bicycle that is slowing down. At low speeds, a bicycle tips easier. An economy growing at 2% is a lot more likely to tip below zero growth and into recession, which could result in a 15% to 20% drop in the equity market.

On Oil Prices.

There are two ways of looking at oil prices.

1. Drop in oil prices is a function of weak demand and hence is something to worry about because it is an indicator of economic activity.
2. Drop in oil prices is a function of oversupply and should have dropped from $100 a barrel. Oversupply is not a bad thing. The drop has been disproportionately bad for the equity market, but is good for the economy, even though the consumer is not spending it. Consumer are using the savings from the pump to pay down debt and add to savings.

Until last month, the equity market was irrationally highly correlated with oil prices, a reflection of view number 1, a sign that the drop in oil prices was caused by something much more sinister than oversupply. Equity markets are now driven by earnings, first and foremost. If we get that pop in earnings, equity markets will go up. If no pop in earnings, Samantha expects a flat year for stock prices. The relationship between oil and stock prices has recently begun to break and drift apart. Going forward, oil prices will do their own thing, which will be more of a driver for the consumer than equity prices.

How do we help clients manage through volatile times?

Keep a long-term perspective, even for people who are in retirements. Don't get caught up in the headlines. T. Rowe Price's chart below helps investors understand the long-term perspective. Since 12/31/1995, stock market returns far exceeded returns for bonds and cash, even with the financial crisis, the dot.com bubble and the August 2015 event. Keep stocks in context and don't get caught up in the headlines.

A Long-Term Perspective

Investment Total Returns

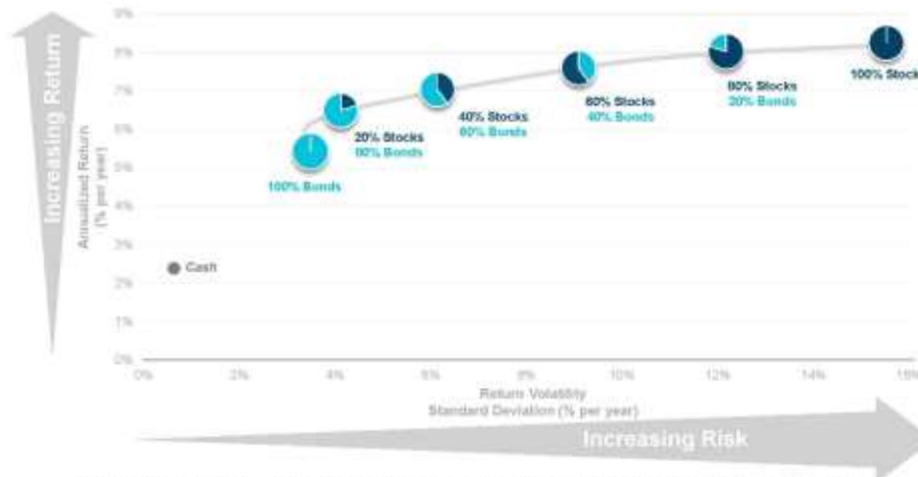
Source: T. Rowe Price using data supplied from Morningstar.

T.RowePrice

View the volatility of stock returns in the context of bond and cash returns, which cushion the impact of stock market volatility. Bonds and cash provide returns that are less volatile than stock returns. Add these components to mitigate volatility and calm fears.

Risk vs. Reward Over 20 Years

Blending Stocks and Bonds



Source: T. Rowe Price using data supplied from Morningstar.

T.RowePrice

Additional thoughts about volatility to help calm fears? When is the next downturn?

We live in the U.S. and feel that a lot orbits around us. And it's true from a market perspective. The U.S. business cycle is the driver of so much in the markets and the economy. We're moving

to the place where everything will orbit around either the U.S. or China. For now, JP Morgan Asset Management focuses on the U.S. business cycle to set the tone for risk assets.

So where are we in the economic cycle? We are in the 7th inning of 9 innings in the economic cycle. Trend growth in the U.S. has been coming down. This is not a good or a bad thing; it's a very natural thing. That has meant we never got the pop in growth during this cycle. It's been a long, sticky, stretched-out expansion. That's why Samantha thinks the stock market still has room to go up from here. We are on track to have the longest expansion in history, nearly a decade long. The expansion has been at a slower pace, but it has been longer. That's what underpins the stock market. Continued expansion means the stock market can continue to grind higher.

How to address uncertainty of the elections?

Election cycle market doesn't like uncertainty. It's not just about the Presidency. It's also about the House and Senate. Checks and balances will likely continue no matter who wins. Looked at data, presidential elections have no discernable impact on market returns and GDP growth. One can say the president is the function of the economic times or the economic times are a function of the president. Executive power of presidency is limited. There is a disconnect between what a presidential candidate says or tweets and what he/she can actually do.

On immigration in Europe.

JP Morgan's London team is split on whether the mass migration is a good/bad, a positive or a negative. From a textbook perspective, it should be a good thing. The long-term driver of economic growth is population growth. People buy more stuff; they have children, creating a virtuous consumption cycle. It is not clear if the migrating population can be assimilated. It should be a good thing. On the other side if it ends up tearing apart Europe, that would be a bad thing. No one knows how it will turn out. Then there is the humanitarian piece, that we should do the right thing. A thorny and complex issue, but J. P. Morgan still likes Europe, even though mass migration poses a long-term risk.

On credit card debt that just reached $1 trillion for the first time since 2008.

After the crisis, consumer debt dropped for the first time ever as consumers paid off debt and delayed the purchase of consumer durables. The decline in consumer debt to income is a good thing, as it provides shock protection for consumers. There is a delicate balance between U.S. consumer spending, which is the heart of the economy, and the growth of debt. In some sense, credit growth lubricates the economy, but you don't want it to get out of whack. Consumer debt came down low enough after the financial crisis so that it is not a threat. Wages are rising slowly coupled with the drop in oil prices, which is putting more money in consumers' pockets. Millennials came into the workforce at the worst time ever and have put off buying homes and cars. Now oldest millennials, in their early thirties, are beginning to settle down. They are buying houses, cars and having children, probably a good thing for the economy and part of the growth in debt story.

On Managing Millennials

We need to reach out to millennials and understand their needs. While baby boomers are paying off mortgages, millennials are buying houses and taking on mortgages. The millennial demographic is larger than the baby boomer population.

On suggested asset allocation

JP Morgan has a bias to U.S. equities. International adds another layer of complication, but the international portion is ticking up to add risk-adjusted return.

On earnings.

Earnings have been challenge and are not even back to where they were in 2014. Earning fell off a cliff, and we’re waiting to get back. Earnings growth has to come from top-line growth. Since 2008, corporations have been cutting costs to the bone. Future growth will come from top line growth. No more financial engineering to be had. Investors are skeptical now about share buybacks. Margins are shrinking due to higher wages. Fifty percent of S&P 500 company revenues come from abroad. Perhaps companies will become more tactical about managing overseas operations. Don’t see growth from tactical changes materializing now, but hopefully during the back half of the year.

On sectors.

J.P. Morgan thinks defensives will not do well ahead. They believe in the consumer and growth in the U.S. economy and like sectors levered to that: consumer discretionary, technology and healthcare.

On International investing.

Active management is the way to go. Selectivity will be key. Broad international country specific indexes are quirky. For example, the Japan TOPIX consists of 1,600 companies and is valued at 25% of the S&P 500 Index. Therefore, investing in the Japan index is a different animal. And J.P. Morgan would not advise broad-based exposure to the TOPIX. Active is the way to go. Selectivity and a bottoms-up approach is key outside the U.S.

Wisdom shared.

Samantha shared that volatility is surprisingly normal and doesn’t have to be a signal of a bear market.

Judith likened the daily financial news to a “Bucket of Beagles” [her family raised beagles and would move puppies in buckets]. It took only one to start the whole pack howling. To calm the pack, ask, “Who is howling?” and help clients cut through the noise to focus on their goals and long-term investment results.