

**Market Insights for Week Ending Oct 20, 2017**



**The Sound of Silence**

In his work *Republic*, the philosopher Plato wrote what came to be known as the “Allegory of the Cave”. The story describes a cave in which prisoners, who have been chained to the wall since birth, see shadows projected on the wall from puppets dancing in front of a fire. Being sheltered in the silence of the cave with no ability to see the puppets, their only reality is the larger than life projection of the images held in front of the fire. They form all their beliefs based on these simple shadows. It is all they know. One day, a prisoner escapes and upon seeing the sun for the first time he is blinded and confused. Only after some time is the escapee able to understand there is a different world than the one he knew in the cave. It is a world which he couldn’t understand until he experienced it with his own senses.

Over the past 9 years, investors have lived in the silent shelter of a protective cave created by the world’s central banks. Investors have enjoyed positive equity returns alongside very low levels of volatility. It is the only world many investors know. The chart below shows the longest market durations in the S&P 500 without experiencing a 3% or greater drawdown.

<b>S&amp;P 500: Longest Streaks Without A 3% Drawdown (1928 - 2017)</b>						
Rank	# Trading Days	Start Date	End Date	Start S&P	End S&P	% Change
1	241	1/26/1995	1/9/1996	467	609	30.4%
2	234	11/7/2016	10/11/2017	2085	2555	22.5%
3	162	7/7/1993	2/23/1994	441	471	6.6%
4	131	11/26/1963	6/3/1964	70	79	14.2%
5	120	9/2/1965	2/23/1966	87	91	4.9%
6	114	12/17/1964	6/1/1965	84	88	5.0%
7	105	1/27/1983	6/27/1983	142	168	19.0%
8	91	3/19/1985	7/26/1985	177	192	8.8%
9	87	6/29/2016	10/31/2016	2036	2126	4.4%
10	82	10/19/1992	2/12/1993	412	445	8.0%
11	76	2/18/1959	6/5/1959	54	58	5.93%
12	75	4/15/2014	7/31/2014	1831	1931	5.47%
13	73	8/21/1928	12/5/1928	20	24	20.44%
14	73	4/29/1997	8/11/1997	773	937	21.22%
15	73	3/16/2015	6/26/2015	2053	2101	2.34%
16	72	1/10/1961	4/21/1961	59	66	11.83%
17	72	10/10/2013	1/23/2014	1656	1828	10.39%
18	69	8/9/1963	11/15/1963	70	72	3.33%
19	68	9/27/1961	1/4/1962	66	71	7.39%
20	68	7/10/1989	10/12/1989	325	355	9.38%

**Pension Partners**  
The ATAC Rotation Manager

**@CharlieBilello**  
Source: Pension Partners/Charlie Bilello

Over the past year, the lack of volatility has reached historic levels. When updated to reflect the data through Oct 20<sup>th</sup>, the current rally now moves to the top of the list. This means we have gone almost

an entire calendar year without seeing the S&P 500 sell off by at least 3%. Hurricanes, the threat of nuclear war in the Korean peninsula, high equity valuations and anxieties about domestic politics haven't even been enough to break the silence of this low-volatility bull market rally.

### **Why do we care?**

So back to Plato and the cave. The prisoners in the story only knew the silent shadows on the wall as their reality because that is all they saw, every day, over and over again. In some ways, many investors in the current market are falling victim to the same experience. Their reality is a market that has no volatility. This can lead one to believe that there is no risk to worry about and that the markets will continue on an upward trajectory indefinitely.

HCM remains fully invested and is optimistic that sustained global growth and timid central banks will continue to support the current rally. However, we also understand that in times like these, we need to make sure we step out of the cave and see what other realities may be lurking and how we can plan to deal with these potential situations. Having a plan in place, ahead of time, is the most important thing in dealing with the volatile markets that will come again, as it prevents emotion from driving our decision process.

Volatility is normal but we can all agree the markets are more fun without it. Hopefully we can enjoy the shadow on the wall a little bit longer.

### **Weekly Focus – Think About It**

People talking without speaking,  
People hearing without listening,  
People writing songs that voices never share  
No one dare  
Disturb the sound of silence.

-Simon and Garfunkel

### **Market Activity**

Performance last week for the four major asset classes were:

- U.S. Stocks – Russell 3000 (IUV) – Gain of .83%
- Developed Foreign Markets (EFA) – Loss of .32%
- Emerging Markets (EEM) – Loss of .56%
- Fixed Income (AGG) – Loss of .46%

(Note: performance is based on the change in net asset value.)

## Last Week's Headlines

Minutes from the FED's September meeting showed some disappointment in inflation as core US inflation rose less than expected last month. However, they are still showing a desire to proceed with monetary policy normalization going forward.

Despite geopolitical noise, global risk assets rallied. Japan's Nikkei Index hit its highest level since 1996, while European stocks reached 10-year highs.

Eurozone industrial production exceeded expectations in August. Spain gave Catalonia a deadline to retract its independence claim.

## Eye on the Week Ahead

Earnings season continues with 15% of the S&P 500 reporting third-quarter earnings this week. Guidance will be in focus as the impact of recent hurricanes could have material impacts on reported earnings. Polls suggest the most likely outcome of Japan's election will be a victory for Prime Minister Shinzo Abe.

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