PERSPECTIVE IN CRISIS

For the past two years, we've made a point to highlight the natural ebbs and flows of global investible markets. A major part of the rationale was that over the past couple of years markets have been much less ebby and flowy than history suggests is possible…normal. Acknowledging that market-related headlines have turned qualitatively ugly over the past few months, we wanted to attempt to pull perspectives into the future. Before the latest ills, with time global equity markets always have recovered from whatever near- and medium-term chill they caught. While investors should regularly gauge their tolerance for medium-term drawdowns, they may find some solace in the understanding that the years ahead may still prove gainful.

If History's Any Guide

Given the heightened volatility and recent substantial downturn in the domestic equity markets, no doubt that many investors are thinking that they simply could not stomach another market plunge like that faced during the Great Financial Crisis of 2007-09. While we caution that there are a host of reasons to believe that global equity markets may continue to be volatile as we head into 2019, we want to reiterate a point made above. Aside from the latest plunge, equity markets always have recovered from historical drawdowns. In Figure 1 we show the performance subsequent to market peaks of the MSCI World Index. The list includes all drawdowns (lowest subsequent performance after each peak) greater than 20%. In 3 of the 5 drawdowns, the index failed to surpass the prior peak within five years of that peak (value in the fifth column). However, in all cases but one (the decade span between the Tech Bubble and the Great Financial Crisis), the index managed to achieve a level higher than the prior peak after ten years (column 7). And in all cases the index has recovered from prior troughs shown in the figure (final column in the table).

Figure 1: MSCI World Index Historical Drawdowns and Subsequent Performance

Dollar amounts show value of $10,000 invested at the various initial index peaks

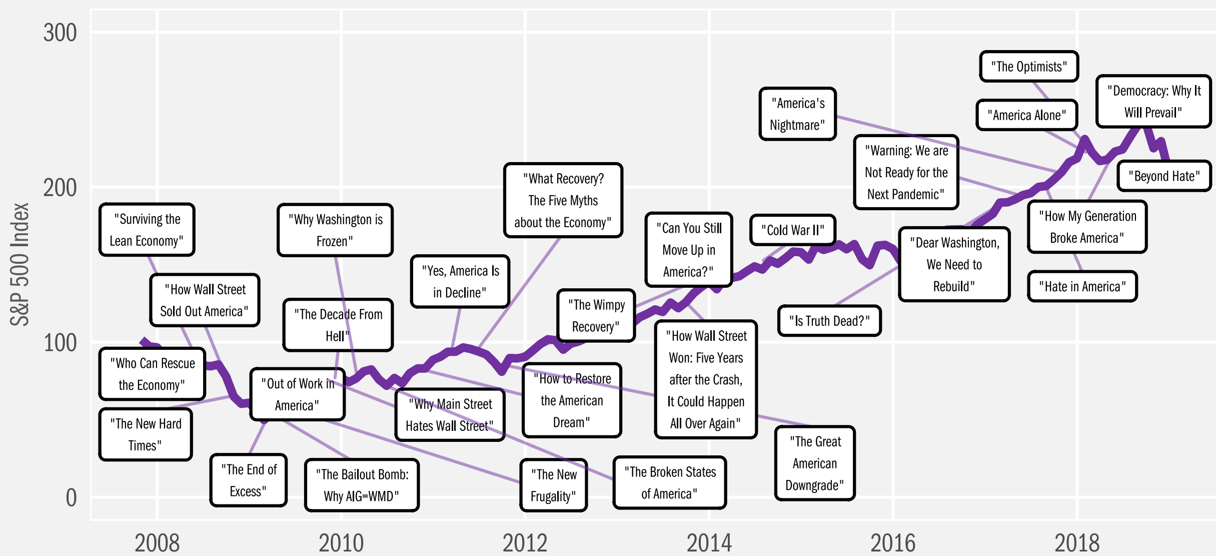
Initial Peak	Susequent Low	Percent Drawdown	At Low	5 Years from Peak	5 Years from Low	10 Years from Peak	Peak to Present
Mar 1973	Sep 1974	-41.1%	$5,893	$9,541	$12,513	$17,353	$381,143
Aug 1987	Nov 1987	-20.5%	$7,953	$11,229	$11,008	$22,023	$66,446
Dec 1989	Sep 1990	-24.3%	$7,566	$11,974	$13,799	$29,499	$55,721
Mar 2000	Sep 2002	-46.8%	$5,320	$8,647	$12,845	$9,972	$18,697
Oct 2007	Feb 2009	-54.0%	$4,597	$8,646	$11,428	$14,941	$14,123

In USD. From 12.31.69 to 12.31.18. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. One cannot directly invest in an index. SOURCE: SRCM using data from MSCI via Dimensional Fund Advisors

Staying on Point

Doesn't help that fears arising during market downturns can be exacerbated by coverage of the turmoil. Another behavioral focus that's critical to long-term investment success, we believe, is tuning out that noise. In Figure 2 we chart monthly values of the S&P 500 Index from just before the Financial Crisis onward. We then overlay select cover stories from Time® magazine to express a mood at the moment. While we wouldn't argue that the headlines were a cause of the market's moves, we would surmise they may well have had a negative impact on the psyche of those who viewed them.

Figure 2: Growth of Wealth and Select Time® Cover Stories



From 10.31.2007 to 12.31.2018. The cover stories above are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a longer-term perspective and avoid making investment decisions based solely on the news. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. There is no guarantee that any investment or investment strategy will achieve its objective. Indexes are unmanaged. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM using data from Dimensional Fund Advisors and Time® Magazine.

Mark Your Calendar

Not forgetting the tumult at the beginning of the year, market moves in 2018 may have heightened investor anxiety, potentially pushing folks to divert from investment paths that otherwise remained suitable in a longer-term context. Individual perspectives on and reactions to this downturn still may warrant a rethinking of a suitable path going forward. The present always is a good time to assess tolerance for investment risk. We prompt readers to continue to use market history and the context of the fullness of their short- and long-term financial plans as the firmer basis for determining appropriate levels of equity market exposure.

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The MSCI World Index is a broad global equity index that represents large and mid-cap equity performance across 23 developed markets countries.

The S&P 500 Index measures the performance of the large-cap segment of the U.S. equity market.

One cannot invest directly in an index. Index performance does not reflect the expenses associated with the management of an actual portfolio.

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