INSIGHTS
ONLINE SPONSORS' CONTENT DISTRIBUTED
BY WILMINGTONBIZ.COM

# How to Deal with Recent Market Volatility

SPONSORED CONTENT PROVIDED BY EDDIE NOWELL
PRESIDENT, SOUTH ATLANTIC CAPITAL MANAGEMENT GROUP

**Prices Can Be Distorted by Computer Driven Trading**

Last year's fourth quarter downturn started as short-term interest rates increased, which made bonds more of an investment alternative to stocks.

At the same time, concerns over stocks were rising, as investors worried about a somewhat elevated market valuation of 17.5 times expected 2019 earnings, the threat of a trade war and higher tariffs, and potential economic weakness partially due to the prospects for a trade war. This led to the anxiety and market downturn, but our view is that the market isn't nearly as overvalued as it was before the downturn that started in in 2000, and the economy and banking system appear to be in much better shape than they were in the 2008 downturn notwithstanding the trade concerns.

The speed and magnitude of the recent downturn probably was exacerbated less by fundamentals and more by the fact that a much higher percentage of today's trading, as much as 85 percent, is driven by models, machines and passive investing, all of which are momentum-based.

During times like these, you should consider the strong possibility that the short-term prices for many of the stocks you own are being set by the most nervous investor and can be completely detached from the true value of the business, valuations which will eventually be evident regardless of the current turmoil. That is no time to sell, particularly since long-term appreciation in your portfolio is so difficult to achieve by being in and out of the market.

**Selling During Volatility Can Hurt Long-Term Returns**

For example, according to Putnam Investments, if you invested $10,000 in the S&P 500 over the 15 years ending Dec. 31, 2018, it would be worth just over $30,000. But if you missed just the 10 best days, such as the day after Christmas this past year, that would be cut in half and if you missed the 20 best days, you would have no profit.

So, missing just one half of one percent of the of the last 15 years led to no real return. Investors need to stick to their plan rather than react to wild gyrations and scary headlines.

It's impossible to know if the current situation is behind us but another important thing to consider before you sell during volatile markets is the returns that occur once the downturns are over:

- In the three years after the 2000-02 dot-com bust, the cumulative gain for the S&P 500 was 49.7 percent, or 14.4 percent per year.
- In the three years after the 2008 credit crisis, the cumulative gain for the S&P 500 was 48.6 percent, or 14.1 percent per year.

**Focus On Companies That Can Deploy Capital In Down Markets**

A key part of our investment philosophy is to focus on investing in companies that maintain their financial strength during downturns, when opportunities are more attractive. We think that has moderated drawdowns for client portfolios relative to the market in past downturns, a statistic called downside protection. That has helped clients stay invested during nerve racking periods and achieve long term capital appreciation.

If a resilient company maintains healthy cash flows and a strong balance sheet during periods of uncertainty, lower prices prevalent during uncertain times is a positive for these companies, since it allows them to buy more assets or buy back more of their own shares with their financial strength than they can during up markets. Better access to funds also means they are better able to take market share from weaker competitors.

In the long run, focusing on these types of companies can help you achieve significant capital appreciation.

More information on our investment philosophy, including how we approach downturns is available on our website.

1. How We Have Done in Down Markets and Immediately After
2. Funds available In the Portfolio to Take Advantage of the Downturn.

Please feel free to contact us if you would like more information about our investment philosophy.

Mr. Nowell has over thirty years of experience in the finance business. Prior to founding South Atlantic Capital he worked in the leveraged lending department of Bankers Trust Company, New York as an Assistant Vice President. His primary responsibility was arranging bank financing for leveraged buyouts led by Kohlberg, Kravis, Roberts & Company. During graduate school he interned with Merrill Lynch's Capital Markets Group in New York. Later he served as an institutional fixed income salesman for Carolina Securities/Prudential Bache Securities and worked with Fox, Graham, and Mintz Securities. Mr. Nowell graduated from the University of North Carolina with a B. S. in Economics and received his MBA from the University of Virginia.

*Disclaimer- Past Performance is no guarantee of future results. Nothing in this article should be construed as investment advice of any kind. Consult your investment adviser before making any investment decision.*