The Nottingham Advisor

Your Weekly Source for Market Information

NOTTINGHAM ADVISORS ASSET MANAGEMENT

2015 - Issue 32
Week of August 24 - August 30

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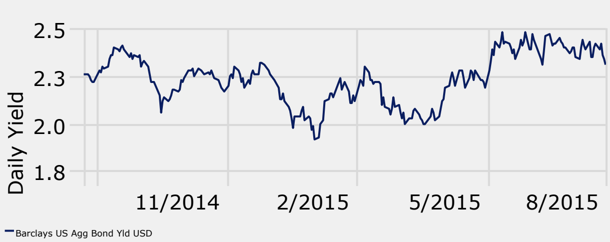
Fixed Income

- The 10yr Treasury closed at 2.05%.
- The 2/10yr Treasury spread contracted to 141 bps.
- The 30yr Treasury closed at 2.74%.
- According to Freddie Mac, the average 30-year fixed-rate mortgage in the U.S. is 3.94%.

Barclay's Aggregate Bond Yield

Time Period: 8/22/2014 to 8/21/2015



Hot Topic: Minimizing Volatility in a Global Multi-Asset Class Portfolio

By now you've surely heard the news. The S&P 500 was down 121 points last week, or -5.71%, and is now about -7.5% off of its all-time high set earlier this year. The Dow Jones Industrial Average and Nasdaq followed suit, with steep selloffs. Chinese equity markets fell even more sharply, and all major world equity indices are facing a sea of red. While volatility has spiked markedly over the past week (the VIX more than doubled from 13.79 last Wednesday to 28.03 on Friday), the correction is likely not over. However, this is probably not the start of a bear market, or even a recession.

So, if volatility is back (and maybe here to stay for a while), what can investors do to minimize the fluctuations and swings in their portfolio? Assuming one has the correct asset allocation to fit their risk tolerance, there are ways to *change the mix* of securities to minimize volatility. First, investors can own cash. Cash preserves capital in down markets, but can cause portfolios to lag in up markets. Second, investors can own bonds. Fixed income securities become safe havens in times of market turmoil, and can prove to be ballast in one's portfolio that adds stability.

From an equity perspective, investors can tilt their portfolio in a more defensive manner. That means owning large-cap equities, defensive sectors such as utilities, or using factor based strategies to minimize volatility. Factor ETFs, such as the iShares U.S. Minimum Volatility Portfolio (USMV), seek to optimize its given benchmark by creating the minimum variance portfolio, complete with sector constraints (+/- 5%). This inherently defensive tactic typically lends itself to outperformance in down and volatile markets. Since 6/30/15, USMV has gained +1.14%, while the S&P 500 ETF (SPY) has fallen -3.99%, for an outperformance of +513 basis points. The same occurrence can be seen across geographic regions. The iShares EAFE Minimum Volatility ETF (EFAV) and iShares Emerging Markets Minimum Volatility ETF (EEMV) have similarly been able to weather volatility better than their benchmarks, which is by design.

Minimum volatility ETFs are an excellent addition to one's portfolio, especially as a tool to tilt a portfolio in a defensive manner without having to withdraw from equities completely. These products can be found in all of Nottingham's equity allocations, just one example of how we manage risk within our client portfolios.

This Week's Key Economic Data Releases:

August 26: U.S. Durable Goods Orders for July are expected to decline -0.4% MoM, lower than June's growth of +3.4% MoM.

August 27: U.S. GDP for the 2nd quarter of 2015 is expected to grow +3.2% QoQ, higher than the prior estimate of +2.3% QoQ.

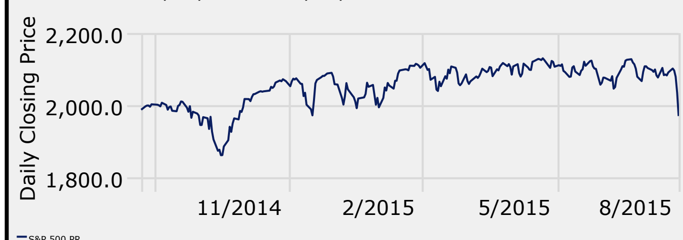
August 28: U.S. Personal Spending for July is expected to grow +0.4% MoM, while Personal Income for July is expected to grow +0.4% MoM.

Equities

- The three S&P equity markets indices were down last week, with large-, mid-, and small-caps losing -5.71%, -5.20%, and -5.23%, respectively.
- U.S. Housing Starts for July came in at 1206K, beating estimates of 1180K and June's revised number of 1204K.
- U.S. CPI for July grew +0.1% MoM, lower than estimates of +0.2% MoM and June's growth of +0.3% MoM.
- The Conference Board U.S. Leading Index for July declined -0.2% MoM, lower than estimates of +0.2% MoM and June's growth of +0.6% MoM.
- S&P 500 (-2.97% YTD): Healthcare leads (+5.08% YTD), while Energy lags (-19.36% YTD).

S&P 500 – Large Cap

Time Period: 8/22/2014 to 8/21/2015



Source: Morningstar Direct

S&P 400 – Mid Cap

Time Period: 8/23/2014 to 8/21/2015

S&P 400 – Mid Cap

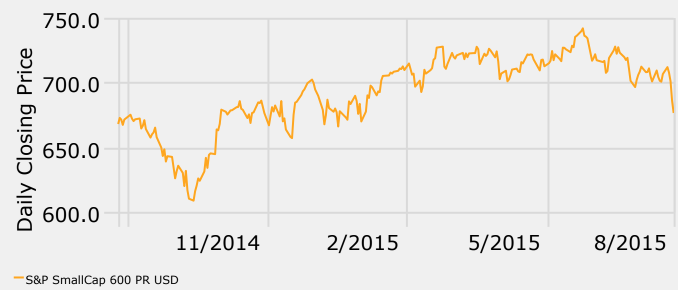
- -1.02% YTD
- Health Care (+12.81% YTD) leads the way, while Energy lags (-24.13% YTD).

S&P 600 – Small Cap

- -1.13% YTD
- Health Care (+19.52% YTD) leads, while Energy is the worst performing sector (-40.46% YTD).

S&P 600 – Small Cap

Time Period: 8/23/2014 to 8/21/2015



MSCI EAFE – Developed International

Time Period: 8/23/2014 to 8/21/2015

MSCI EAFE – Developed International

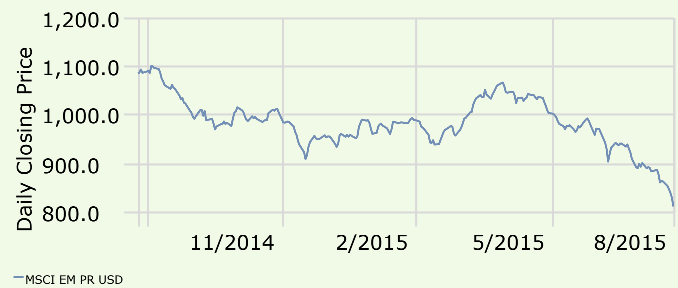
- Japanese GDP for the 2nd quarter of 2015 declined by -0.4% QoQ, beating estimtes of -0.5% QoQ, but lower than last quarter's QoQ growth of +1.0%.
- German Manufacturing PMI for August came in at 53.2, higher than both estimates of 51.6 and July's reading of 51.8.

MSCI EM – Emerging Markets

- Russia's Industrial Production for July declined -4.7% YoY, better than estimates of -4.8% YoY and in line with June's YoY decline.
- The Chinese PMI Manufacturing Index, prepared by Caixin, came in at 47.1 for August, lower than estimates of 48.2 and July's reading of 47.8.

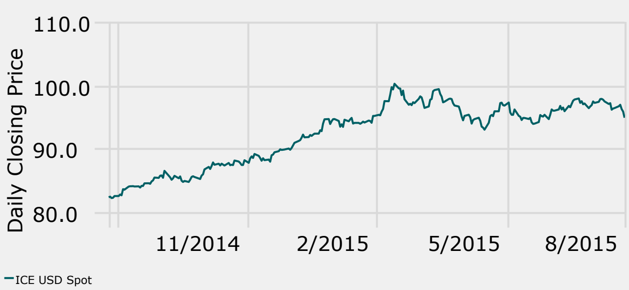
MSCI EM – Emerging Markets

Time Period: 8/23/2014 to 8/21/2015



USD – Dollar

Time Period: 8/23/2014 to 8/21/2015



USD – Dollar

- The Dollar Index (DXY) decreased to 95.01, falling by 157 bps from last week.
- The Yen strengthened against the Dollar to 122.04 JPY/USD.
- The Euro strengthened against the Dollar to 1.14 USD/EUR.

DJ UBS – Commodities

- Gold prices increased last week, closing at $1,161/oz.
- West Texas Intermediate (WTI) crude oil prices decreased from last week, closing at $40.24/bbl.

DJ UBS – Commodities

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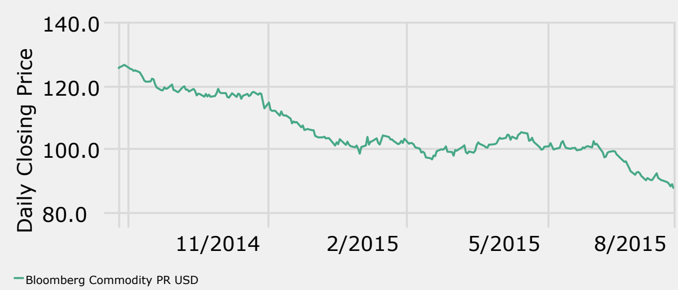

Source: Morningstar Direct