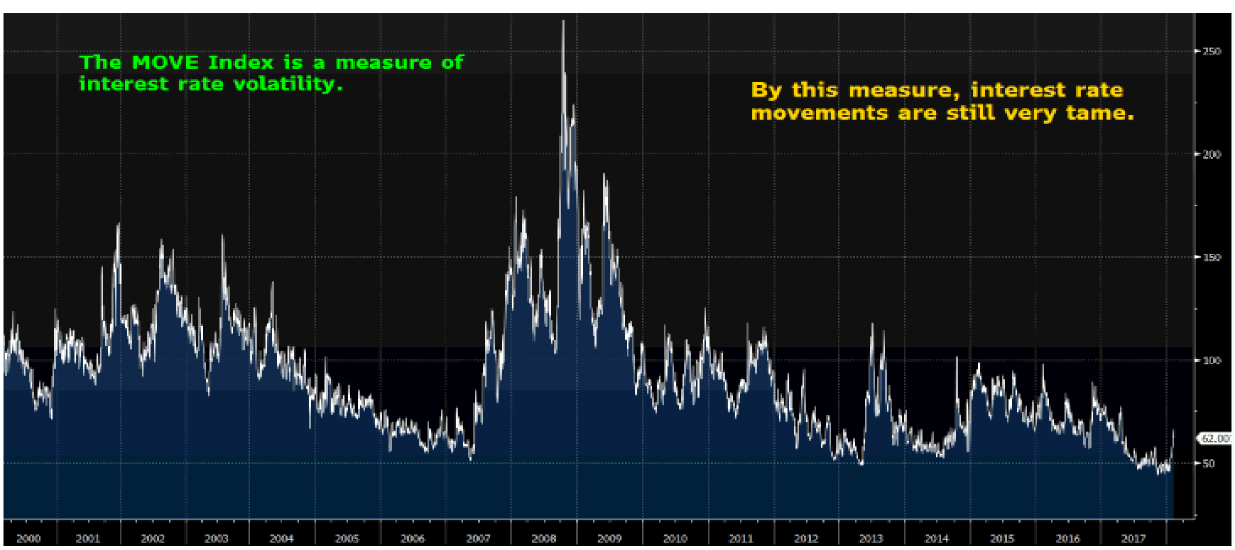
NOTTINGHAM ADVISORS
ASSET MANAGEMENT

What The #@%! Just Happened?

In little more than the blink of an eye, both stock and bond markets have been seemingly turned on their respective heads. Equities, which heretofore knew only one direction (UP!), don't seem to know which way they want to go now, having dropped 10% from their recent all-time highs. And bonds, those safe, well-behaved deliverers of fixed incomes, appear to have few buyers at current levels, with interest rates drifting higher. What happened?

Volatility is what just happened. Or, the return of volatility, to be more precise. Investors have been lulled into a false complacency these past 12 to 18 months as markets have been incredibly tame and predictable. As economist Hyman Minsky noted in his Financial Instability Hypothesis, **stability often breeds instability**.

Dramatic spikes in the VIX are rare but not unusual! *Source: Bloomberg*



Despite a .50% move in the 10yr Treasury yield thus far in 2018, volatility is still low.
Source: Bloomberg

Despite recently setting all-time highs, the stock market has investors on edge. Wild daily swings of 500+ points have rocked investors' sense of complacency. What to do???

DON'T PANIC!

The root causes of the spike in volatility are still not known with certainty (despite the know-it-all talking heads on CNBC). Fundamentals haven't changed. Interest rates are still very low. Bond yields are trending higher, but most people expected that since the Fed told us it was going to raise interest rates (and if you didn't believe them, shame on you!). Corporate earnings are solid and poised to get better. The world economy is growing.

This is a key time to remember your TIME HORIZON. Time is a great diversifier and risk mitigater. Investors might use this opportunity to reassess their long-term needs and goals. The stock market has come a long way – only a few percentage points off all-time highs. If you're retired, is it time to rebalance into more bonds?

At Nottingham Advisors, our portfolio strategies are designed with a long-term framework in mind. We love buying cheap, out of favor asset classes, and we've never been shy about steering away from expensive, more trendy trades. With regard to today's market, we have no idea whether stocks will be higher or lower next week, month or year. That said, we're pretty confident equities will be higher over the next 5 to 10 years.

We're big fans of international equities currently, and within international, emerging markets. If these areas get cheaper over the next few months, that's okay, because we're looking to buy more. As for US stocks, it's been a heck of a recovery since 2009. A pause or moderate correction is okay – healthy even. Don't be alarmed.

The recent spike in volatility that we've experienced is unusual in the context of recent history. It is not at all uncommon. It is also not comfortable. It may lead to bad decisions. By our lights, the story is unfolding as it should (but perhaps not as you might want it to be). Talk through any challenges you have with your trusted advisors. Our lines are open.

Volatility creates opportunity when approached with a level head. It's important to keep your wits about you. Be opportunistic. Stay intellectually flexible (my main goal). When the facts change, reconsider. Right now, the facts haven't changed. Stay the course. We'll let you know when we think the story has changed.

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