Markets - A little perspective...

On Monday August 24th the Dow Jones Industrial Average dropped over 1,000 points in the first six minutes, rallied, and ended the day down 588 points. This drop came after the same stock market index dropped over 1,000 points in the 5 previous days.

Market volatility is a constant, but the tone in which we address it is not. Nobody raises an eyebrow when the markets rise 100 or more points. When markets fall 100 points, people take notice. Why do investors suddenly change their behavior?

Let's look briefly at some of the recent "triggers" that changed the direction of the global stock markets. Oil prices have fallen to below $40 a barrel, and Iran's readmittance into the global market is likely to add even more pressure on oil prices. Until the details of their agreement with the EU become finalized, Greece's debt issue remains a concern. And China's currency devaluation raises fears of a weakening economy.

But the above situations didn't suddenly emerge the morning of the 24th. They've either existed or could have been predicted for months.

Perspective matters. Take oil, a usual focus of attention when it comes to global markets, for example. Two years ago, high oil prices were commonly thought to be a positive thing. Jobs were being created and the energy sector was moving into a new era. When oil prices dropped slightly, a new narrative was created. Low oil prices were touted as stimulative for the global economy-the cost to produce and move goods around the globe just got cheaper. Now, with prices even lower, we're concerned. Sub-$40-a-barrel oil is disruptive to the industry (and the local economies surrounding them), but the stimulative effect can't be denied. Consumers putting less money in their tanks will have more to spend elsewhere. Companies and economies around the globe will benefit from lower raw material and transportation costs.

Assuming some sort of deal is ratified, will Iran be an issue? In the shorter term, yes. The country will likely rush oil to market in order to strengthen their sagging economy, badly damaged from years of international sanctions. The flooding of the market will undoubtedly affect oil prices. Keep in mind, however, that global oil demand isn't actually declining. It's simply growing at a slower rate.

The major cause of the market jitters is China. The "devaluation" of their currency on August 11th led to concern about the second largest economy in the world and helped push the markets into their current state. The Chinese economy is, no doubt, slowing from its torrid pace, kept for nearly a decade.

But it's important to note that not long ago most of the world was asking China to allow their currency to "float," meaning let the financial markets dictate the value of the yuan in relationship to other world currencies. China has until now resisted this since their artificially low currency helped fuel their manufacturing and export economy. Now the yuan has become slightly overvalued, "devaluation" is in China's interest. This is a calculated move by the Chinese government to help stimulate their manufacturing and export business.

Many investors have come to believe that China's devaluation will lead to bigger global problems. If China's economy has slowed down, what about those that feed the manufacturing and export juggernaut?

The drop in commodity prices like oil, copper, steel and aluminum appears to reconfirm suspicions that things are worse than expected. But the world's glut of commodities isn't due to China's decrease in buying them. It's due to the expansion of mining and drilling. New technologies and methods have greatly enhanced output. For example, oil sands and fracking technologies have opened up vast new reserves and flooded the markets. So, while China's economy has slowed, we don't believe they're headed for a recession.

The things to remember are:

- Things aren't as bad as the markets seem to be telling us.
- We are not headed for a global recession.
- The global economy is still expanding, just a bit more slowly.
- Consumers, especially in the emerging economies, are growing, not shrinking, in numbers.
- Exiting and re-entering the market usually has negative long-term consequences on investors' portfolios.
- Uncertainty brings opportunity.

Over the last 115 years, there have been, on average, three 5% corrections and one 10% correction every year. The average recovery time for these corrections is just 107 days. Market volatility is part of normal investment cycles.

Behaviorally, we tend to react to a number such as 588. It's most important to put that number into perspective. While it is a significant decline, measured at 3.6%; this decline is similar to a 100 point decline in the Dow...back in 1991. The index was then at 2,797, some 470% ago.