Global Market “Risk-on” or “Risk-off”?

Things are happening just like we said it would. In our latest market commentary video we said that you would hear some negative things about the market and economy and the market will increase in volatility. It should come as no surprise to those that listened because that’s exactly what is happening. Over the past week I’ve heard and read a lot of bearish comments about the economy and stock market . . . from rising rates will destroy the bull market to the notion that we are still recovering from the 2008 recession. I hope you listened to the video and are heeding our advice as it shed light on how you should be reacting to what’s happening.

To continue along the same theme in that market commentary video, there is a term in the market known as “risk-on” “risk-off.” When the market is “risk-on” people are more optimistic, the market is generally bullish, and people feel more comfortable taking more risk as they perceive that there is a nice reward to take advantage of. “Risk-off” is just the opposite. When people get nervous about the market or economy, they take “risk-off” the table and move into more defensive sectors (consumer staples, healthcare) or move into cash.

If you’ve read this blog, listened to our videos or if you’ve heard me teach over the years you know the market is cyclical. There are times of the year when “risk is on” and the market is bullish and times when it is not (“risk-off”). This cyclical behavior is not just true in the U.S. markets but it’s true around the globe. Here’s a look at the historical numbers courtesy of our friends S&P Capital IQ.

MARKETS	NOV – APRIL AVG. % RETURN	MAY – OCT. AVG. % RETURN
S&P 500 (UNITED STATES)	7	1.3
MSCI - EAFE (DEVELOPED NON-US)	9.6	-.01
MSCI - EEM (EMERGING MARKETS)	12.1	.7

SOURCE: S&P CAPITAL IQ

There are few thing that these statistics show including . . .

- November – April is the “risk-on” period of the year
- May – October is the “risk-off” period of the year.

You can also guess, based on the same table, that the following things will happen in the time period (Summer) we are currently in:

- The Emerging Markets will be volatile and may pull back from the highs they created in Nov – April. (Which option sellers absolutely love!)
- The Developed Non-U.S. will be flat for the next few months. (Which option sellers absolutely love!)
- The S&P 500 may squeak out a gain if anything and volatility should increase. (Which option sellers absolutely love!)

You can see visually (below) what has happened since May in the global markets. There is no doubt that the normal historical probabilities contained in the table above are playing out. The markets are pulling back and volatility is increasing. *(For those wondering the SPY represents the U.S., the EFA represents the Developed Non-U.S. and the EEM represents the Emerging Markets.)*

So what should you do as an investor? Here’s a few ideas . . .

1. Relax and stay true to your portfolio plan.
2. Utilize options as part of your strategy. This is a great time of year to be taking advantage of the volatility and sideways trending markets.
3. Find stocks that are trading at a good value that you love and buy them. Certainly we (IGGA) have our list and taking advantage of those stocks that we want to hold for the next two – five years.

Now, if you are still afraid of the what the market is doing and would like to talk, let me know! I’m more than happy to address any questions or fears that you may have about investing and the global markets.

Successful investing,

Brett

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