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CAPITAL MANAGEMENT

Our Views on the Recent Volatility in the Market

August 26, 2015

The past week has certainly been turbulent in the markets, coming to a head yesterday with volatility that we have not seen in quite some time. Thus, we wanted to share our thoughts on the correction and to pass along some information on the strategies we are employing to protect your wealth during this volatile time.

At yesterday's close, the S&P 500 was firmly in correction territory, down over 10% from its peak on May 20th. The correction seems to stem from a culmination of a few factors all spooking the markets simultaneously last week and into Monday. These factors included fears of the Federal Reserve hiking interest rates for the first time since before the financial crisis, a global growth scare sparked by fears from China, a strong US dollar, and worries that central banks can no longer pump up markets forever. These dynamics resulted in violent sell-offs, as well as rallies, over the past six trading days worldwide. While the speed at which this correction took place was surprising, the actual correction itself is quite normal. Typically, 10% corrections happen once every year and a half. The last correction the S&P 500 has seen was in early 2012, about three and a half years ago. One could argue a correction was overdue and needed to test a healthy bull market.

While we certainly expect continued volatility for the remainder of the year, we do not see this correction continuing into a bear market, meaning 20%+ declines, for US equities. Historically, bull markets typically only turn to bears during a recession. While US growth is not what we consider strong, we are also not in a recession, as GDP is expected to grow 2% in 2015. We view this correction as a re-pricing of global growth rather than a more severe crash.

All that being said, since the beginning of the year we have been transitioning portfolios to be more cautious, thinking a correction of some type was due. While we may have been early, we are happy to have taken some risk off the table and will likely continue to do so given some of the vulnerabilities exposed by recent emerging markets action. This correction has also given us an opportunity to revisit our equity buy list and potentially add more attractively valued, high quality stocks. However we will wait a bit for the dust to settle before you see any equity purchases in your portfolio.

We recognize that market volatility to the levels seen in recent days can be stressful and disconcerting, and we thank you for trusting us to preserve and grow your wealth in these uncertain economic times. As always, please let us know if you have any questions or concerns.

Warm Regards,

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