



October 2015

3rd Quarter 2015 Market Commentary

The Return of Market Volatility

For the first time in nearly four years, the broad indexes posted their first technical (a 10% decline from recent highs) correction in the third quarter. Driven by news of stagnant growth and currency devaluation in China, global oil prices at multi-year lows, and the continued strength of the U.S. dollar, the S&P 500 dropped 12.35% to a low of 1,867.61 in August from May highs. Through much of September and early October, market volatility returned in force, as the markets posted triple digit swings in both positive and negative directions.

So where does this pullback fall when compared with other recent market corrections? If we look back at the 2011 correction, we saw the S&P 500 fall 19.38% beginning July 22 amid concerns of a default in Greece, a congressional impasse threatening to lift the debt ceiling and allowing the U.S. to default on its debt, and contagion of the European debt crisis to Spain and Italy. The markets didn't find a bottom until October 3 and from there it took until February 17, 2012 (nearly seven full months) for the index to fully recoup its losses. Since then, the S&P 500 has returned 41.05% cumulatively through September 30, 2015, an annualized return of nearly 11%.



October 1, 2005 to September 30, 2015; chart courtesy of www.bigcharts.com



You may be wondering what this has to do with you and your portfolio. We understand that in the midst of a correction, it's not easy to watch account values decline. You may also be wondering if it's time to make changes or get out of the market entirely. It's difficult, but important, to think about your long-term investment objectives in times of distress, as imprudent investment decisions in the heat of the moment could negatively impact your long-term goals. It's also important to bear in mind that corrections occur often; historically the stock market averages a 10% correction about once per year. The drought of four years between the most recent correction in 2011 and the current correction in 2015 was one of the longest on record and many investors may have forgotten that these things happen.

"In the Midst of Chaos, There is Also Opportunity"

Sun Tzu, the Chinese military general, referenced this line about chaos in his most known literary work, *The Art of War*. In the midst of chaos, such as a correction, there are often segments of the market that present opportunities for opportunistic investors. Both the energy and commodity sectors are down sharply over the last several months, and while we think there might be opportunities in these sectors at some point, we feel that waiting for a stronger bottoming trend to form before allocating to those spaces is prudent.

Year-end is a good time to evaluate tax loss selling opportunities within accounts to help offset realized and distributed capital gains. In addition, year-end allows us to evaluate opportunities for recovery amid the selling pressure. One area that could provide such opportunities is the closed-end mutual fund arena. Selling pressure is often amplified in closed-end funds, which can create an opportunity to invest in assets at attractive discounts to their underlying values. We are analyzing many funds to identify such opportunities.

Currently, our investment strategy on the fixed income side remains a bit more defensive. We are positioned for a "flat to rising" interest rate environment, and the duration (interest rate bond price sensitivity) is short- to intermediate-term. This will continue to work for us in flat-to-rising interest rate markets and will cause a performance lag in declining rate environments. We will continue monitoring markets and making changes in our discretionary model portfolios as opportunities arise. However, please do not hesitate to contact us with any questions or concerns.

Team Member Profile: Mike Rowedder

Mike Rowedder joined Kirk over 25 years ago, prior to the official formation of the Abrahamson Investment Group. He graduated from the University of Northern Iowa in 1987, and worked in the insurance sector for Metropolitan Life before joining Kirk and Kirk's dad, Jerry, at Merrill Lynch. Mike's role within the team is to provide personalized customer service to our clients. We receive many compliments regarding Mike's work, which is reflected in his receipt of the 2014 RBC Wealth Management Award of Excellence. This award recognizes individuals firm-wide who make exceptional contributions to their position. In addition to his client service role, Mike also leads our team in providing insurance policy analysis and assisting with implementation of portfolio changes for clients.



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Mike met Gina, his wife of 22 years, when they shared a Quotron machine together at Merrill Lynch back in the early '90s. Their daughter, Alli, works with the Principal Financial Group downtown Des Moines. Alli's son, Jameson, is Mike's and Gina's first grandchild and has quickly become a focal point in their lives.

Mike is an avid sports fan and spends a lot of his time outside of work cheering on his favorite teams: the Notre Dame Fighting Irish, the Kansas City Royals, and the Chicago Blackhawks. Mike also enjoys golfing in his free time and this past spring, got to fulfill a lifelong dream of attending The Masters tournament in Augusta, Georgia.

Mike has long been a baseball fan, and during one year in 1996, he and his father attended a baseball game in every major league baseball stadium. Since then, whenever a new stadium is erected, they continue to jointly attend a game in the respective team's new venue.

Happy Holidays!

As we near the end of the year, we want to be sure to wish all of you happy holidays with family and loved ones. And as always, we truly do appreciate your business and the relationships we've been able to build over the years. If there is anything you need from our group, please feel free to reach out.

-The Abrahamson Investment Group
Kirk, Mike, Dana & Colby

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