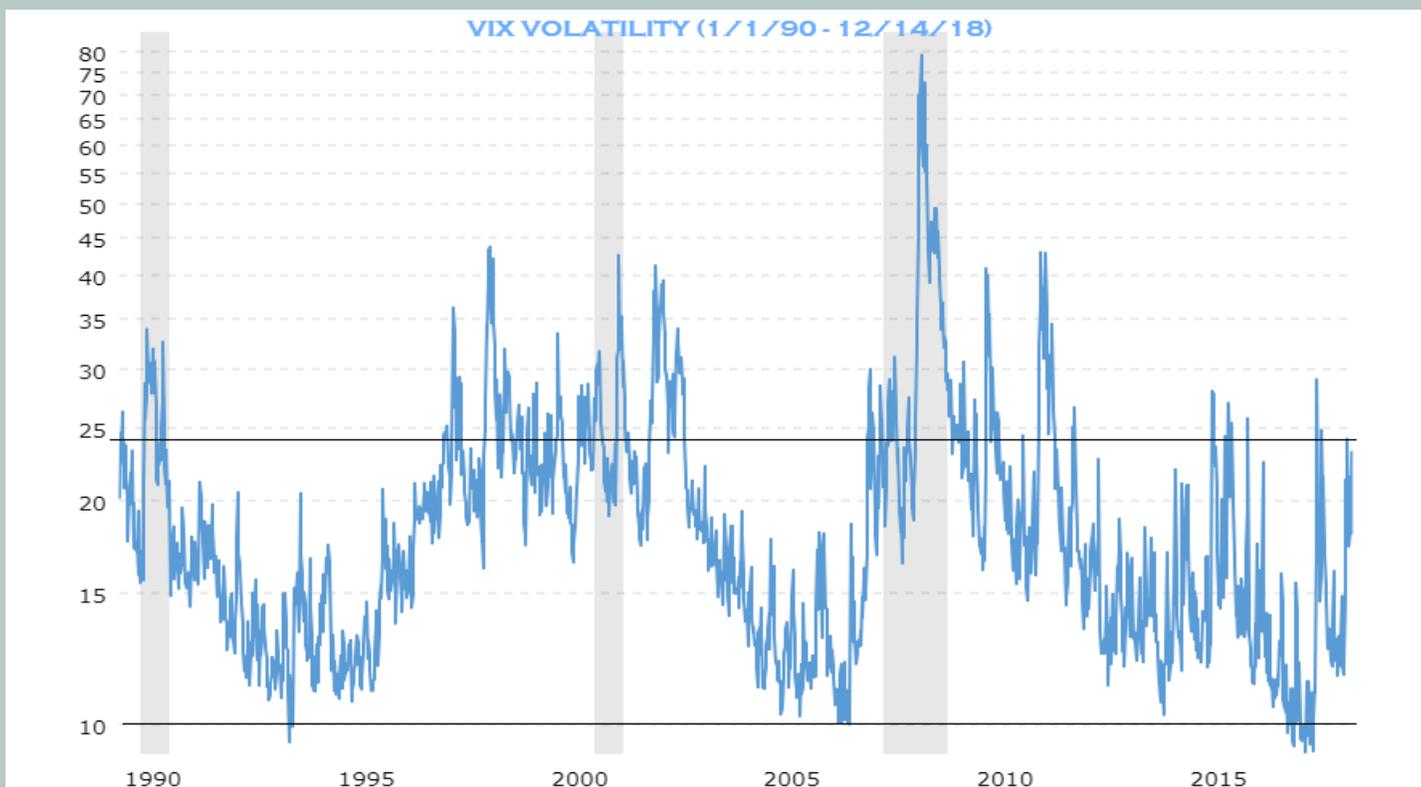




BILTMORE  
FAMILY OFFICE

## On Volatility and Opportunity

After many years of historically calm equity markets, 2018 is providing investors with stark return to normal. For several years, the calm in the US stock market reached levels only touched occasionally during the boom years of the 1990's and late 2000's. The chart below tracks VIX, a measure of S&P equity market volatility, since 1990. The lines illustrate both last year's historically low levels of volatility and this year's relatively normal levels of elevated volatility.



Source: Macrotrends.net

The sharp change in market conditions has stoked fear amongst investors. Since 1987, The American Association of Individual Investors (AAII) has issued a weekly survey, tracking investors' expectations of stock market future prices in six months. This survey is one of the better contrarian indicators for future stock market returns. When investors are super bearish, it is a reliable buying opportunity; after all, there may be no one left to sell.

One of our favorite equity investors, Scott Wallace of Shore Path, produced a chart of the top 10 most bearish sentiment surveys over the past ten years. Over that time frame, there are 520 weekly observations of this net sentiment number. The 10 most bearish readings over the last 10 years are presented below. This week's observation made the list, weighing in at number 10. For the other 9, the subsequent 12 month returns for the S&P 500 are presented. The average is 33%.

	Date	Net Sentiment	News Events	Next 12-Month Total Return for S&P 500	
1	3/5/2009	-51.35	Financial crisis - just prior to start of bull market	70.50%	
2	7/8/2010	-36.13	Trouble in middle east, Deepwater Horizon oil spill	28.07%	
3	4/11/2013	-35.17	North Korean nuclear tests	16.37%	
4	2/19/2009	-35.08	Financial crisis	45.60%	
5	11/5/2009	-33.34	Financial crisis	17.25%	
6	2/26/2009	-30.84	Financial crisis	49.98%	
7	1/1/2009	-30.67	Financial crisis	26.45%	
8	2/11/2016	-29.46	Oil price bust, HY bond blowout, stock market bottoms this day	29.34%	
9	8/26/2010	-28.73	Weak economic numbers, stock market down 8% in last 30 days	14.64%	
10	12/13/2018	-27.97		Today ??	
				<b>Average Return</b>	<b>33.13%</b>

Over the coming weeks, the Biltmore investment team will be adding exposure to equity portfolios. While we don't know if we catch the bottom, we do see fundamental value in a broad number of underlying strategies. These include: domestic cyclicals such as financials and industrials, select emerging markets, many automation companies, and select high yield bonds.

To paraphrase Howard Marks, CIO of Oak Tree, if you want to generate superior returns in the long term, you have to be willing to appear wrong in the short term. As we deliberately allocate capital, we expect to appear to be wrong in the short term. Thank you in advance for your patience and support in the coming months. Wishing you and your families and very Happy Holiday and prosperous New Year.

Rael Gorelick  
Partner & Head of Investments

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