



## Wealth Management for Generations<sup>sm</sup>

January 7, 2016

### A Note on Market Volatility

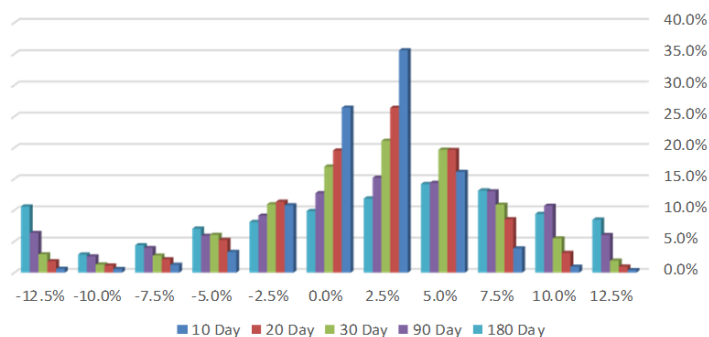
We are writing a quick note on recent market volatility to supplement our longer piece on markets around the world. Over the past 8 years, traders and investors alike have been anesthetized by central banks providing excess liquidity. Prior to this period, market's regularly showed volatility in the ranges of 10 and 15% pull backs. Off a July 20<sup>th</sup> high, we are down 6.49% as of yesterday's close (1990.26) and we had an 11.58% fall relative to the September low of 1884.09 (there was an August low of 1867.61)

As we have noted from a purely statistical historical standpoint, investors should not be surprised by moves of these magnitudes. We took the price data of the S&P 500 and

Return Frequencies	10 Day	20 Day	30 Day	90 Day	180 Day
12.5%	0.4%	1.0%	1.9%	6.0%	8.5%
10.0%	1.0%	3.2%	5.5%	10.7%	9.4%
7.5%	3.9%	8.6%	10.9%	13.0%	13.2%
5.0%	16.1%	19.6%	19.7%	14.4%	14.2%
2.5%	35.6%	26.4%	21.1%	15.2%	11.9%
0.0%	26.4%	19.6%	17.0%	12.7%	9.9%
-2.5%	10.8%	11.3%	10.9%	9.1%	8.1%
-5.0%	3.3%	5.2%	6.1%	5.9%	7.1%
-7.5%	1.3%	2.1%	2.7%	3.9%	4.4%
-10.0%	0.6%	1.1%	1.3%	2.6%	2.9%
-12.5%	0.6%	1.8%	2.9%	6.4%	10.6%

13.5%

Return Frequencies  
S&P 500 since 1928



Pricing Source: Bloomberg Financial Markets, LP



looked at the frequency of return over various time frames. Reading the chart, you can see that 13.5% of the time, in any given rolling 180 day period the S&P 500 has been down 10% or more 13.5% of the time. Do we enjoy these time frames, no. Are they outside of expectations, the answer to that is no also. We like to think in terms of investment, not trading. Valuation is often a poor short term indicator of market direction, but it is an important determinant of future value in our assessment. Consequently when we discuss markets or companies being over or undervalued that an investing concept that plays out over a horizon. Market movements encapsulate a myriad of factors, including but not limited to momentum, sentiment, global macro factors (interest rates, currencies, etc.) and valuation. We appreciate and utilize the world of Variant Perception (VP). Their work focuses on looking at leading indicators as a directional aid in assessing markets. In their most recent piece, the encapsulated market indicators as follows:



While it is clear that China is slowing and this will impact the rest of the world, we continue to see excess liquidity across the globe. We believe that there will be further depreciation in the Chinese currency and that will cause volatility. We also note that this disproportionately impacts commodity, materials and infrastructure sectors. But we also know that the central banks of Europe, Japan and China will be active in pushing money toward markets. The Federal Reserve has held up on stimulus due to the health of the US economy. Too soon? That is an open question, but the argument that they have stayed at the party too long is also a fair argument. Note the liquidity column in the VP report.

As we look at our markets open down day after day, it is easy to lose sight of assets as investments. We believe the important question remains where these markets be over various horizons, not what they will be this afternoon.

Let's take a quick look at a couple of horizons. \* Large caveat, these are best when they are tailored to an investor's liquidity, risk tolerances and horizons.

**Lifestyle:** Short duration assets such as investment grade bonds (approximately 2 years and under), while not yielding much are better assets than they were this summer. Municipal bonds, intermediate to shorter duration are trading attractive to Treasuries (Credit and structure are very important in the selection). This said bond yields are still historically weak versus equity earnings yields.

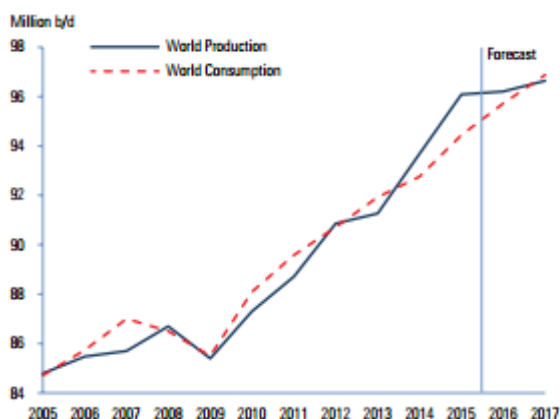
**Generational:** Generically, we like to lower volatility assets (covered calls strategies, long/short). We prefer to buy US equities with good free cash flow yields when the forward S&P 500's price earnings is below 15.0 (130 earnings x 15 <= 1950) - we do not like the lack of breadth in the US markets, and today we prefer hedge European equities.

Country	Valuation	Momentum / Trend	Liquidity	VP Country LEI 3-6m Outlook
<b>NORTH AMERICA</b>				
US	High	Neutral	Neutral	Neutral
Canada	High	Negative	Positive	Neutral
<b>EMEA</b>				
Eurozone	Neutral	Neutral	Neutral	Positive
UK	Neutral	Negative	Positive	Very Positive
Germany	Low	Neutral	Positive	Neutral
France	Neutral	Neutral	Positive	Neutral
Netherlands	High	Neutral	Negative	Neutral
Spain	Neutral	Negative	Positive	Positive
Italy	Low	Neutral	Neutral	Positive
Ireland	Neutral	Positive	Positive	Neutral
Sweden	High	Neutral	Neutral	Positive
Poland	Low	Negative	Positive	Negative
Czech Republic	Neutral	Negative	Neutral	Positive
Turkey	Neutral	Negative	Positive	Neutral
South Africa	High	Negative	Positive	Negative
<b>ASIA</b>				
China	Low	Negative	Positive	Very Positive
Japan	Neutral	Neutral	Neutral	Neutral
Australia	High	Neutral	Positive	Very Negative
India	Neutral	Negative	Neutral	Neutral
South Korea	Low	Negative	Positive	Positive
Taiwan	Low	Negative	Neutral	Neutral
Indonesia	Neutral	Negative	Positive	Positive
Singapore	Low	Negative	Negative	Positive
Thailand	Neutral	Negative	Negative	Neutral
Philippines	High	Negative	Neutral	Neutral
<b>LATIN AMERICA</b>				
Brazil	Low	Negative	Negative	Very Positive
Mexico	Neutral	Neutral	Neutral	Positive
Colombia	Low	Negative	Neutral	Neutral
Chile	Low	Negative	Neutral	Neutral

Source: Variant Perception



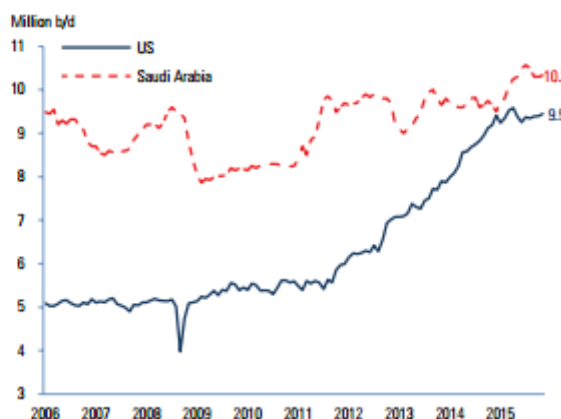
### Global Supply and Demand of Crude Oil



Data as of December 31, 2015.

Source: Investment Strategy Group, Barclays, Bloomberg, Energy Aspects, Goldman Sachs Global Investment Research, IEA, OPEC, PIRA Energy, US Department of Energy.

### Crude Oil Production



Data through November 2015.

Source: Investment Strategy Group, Bloomberg, IEA.

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Past performance is not an indication of future results. There are risks involved with investing, including loss of principal. In addition to the normal risks associated with investing, narrowly focused investments, investments in distressed debt, illiquid investments and investments in single countries typically exhibit higher volatility.

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