Observations and Perspectives:

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Terri Spath joined Sierra Mutual Funds in 2015 and has more than 27 years of investment management experience. She is responsible for market and economic analysis, portfolio allocation and investment strategy for the firm.

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Trendless Volatility

The year 2017 went down in the record books as the calmest stock market in history. The worst decline from high to low ("drawdown") was a scant 2.6% and the S&P 500 recorded just 8 swings of more than one percent, just about one every six weeks, all the while consistently moving to the upside.

The most recent four months of 2018 are quite a different story. Since the 10+% drawdown that began in late January, the S&P 500 has jumped up or down by 1% more than 30 times with nearly nothing to show in terms of return during this new era of "back-to-normal" volatility.

What is challenging investors right now in our view, though, isn't the volatility so much as the lack of up or down trends. The trendless volatility - lots of ups and downs with no established trend one way or the other - is hardly limited to U.S. stocks. The same roller coaster ride has been running for European stocks, high-yield corporate bonds, preferred stocks, floating rate loan funds and more. In fact, even the 10-year Treasury rate is just a few basis points higher than it was at the end of January. A rules-based system to identify the start of an uptrend or downtrend suggests that most investment markets are stuck in neutral.

However, there is one place where our rules-based approach has signaled a trend, but it's not up. Emerging markets debt, one of the most productive asset classes in 2017 (especially as measured on a risk-adjusted basis) is decisively falling. Thanks to a strong dollar, weakening international growth and an opaque U.S. trade strategy, we observed declining trends in emerging markets bonds by late April, stepping out of the way of further losses.

Avoiding unnecessary losses by never being "wrong for long" is one key to successful investing and risk management. Buy and hold strategies may seem to make rational sense, but life is active. We believe your investment strategy should be too. In the current volatile investment environment, a rules-based system to identify trends up, down or trendless may help keep your investments out of trouble and your plans intact.

Drawdown is the peak-to-trough decline during a specific recorded period of an investment, fund or commodity.

The Standard & Poor's 500 Index (S&P 500) is an index of 500 stocks seen as a leading indicator of U.S. equities and a reflection of the performance of the large cap universe, made up of companies selected by economists.

Past performance does not guarantee future results. Investors cannot invest in an index and unmanaged index returns do not reflect any fees, expenses, or sales charges.

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