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10 Observations About the Current Market Environment

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Portfolio manager Ted Samuels puts the recent market volatility in perspective.

One of my best pieces of advice for making it through volatile times in the market is to turn off the TV. After all, media commentators are focused on the here and now, not on how to build wealth over the long term. That said, periods of extreme market turbulence can be unnerving, so I would offer the following 10 observations about the current conditions.

1. The world is not ending. Quite the opposite. In fact, corporate profitability is strong and recent volatility has been below what one would expect at this point in the bull market. U.S. stocks, as measured by the S&P 500, are down from their highs as I write this. In my view, this is not out of the realm of normal observations and can help to reduce some of the excesses that were building up. After all, we haven't had a 10% correction since 2011, which is unusual given the above-average gains we've experienced during that time.

2. Neither a bear market nor a recession seems imminent. You might say that a perfect storm of uncertainty (China, concerns about the Federal Reserve raising rates, and falling oil prices) led to the global selloff that has essentially affected all world stock markets. But, overall, fundamentals seem solid and there are no indications that a global recession is around the corner, given the absence of any kind of liquidity contraction.

3. The banking system around the world – and certainly in the U.S. – seems much stronger than in 2007 and 2008. Regulators have been relentless in their focus on bolstering balance sheets and reducing systemic risks, including outsized leverage.

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4. China is an issue, but an inflection point seems near. Many market observers have blamed China for causing this latest downdraft, which began with weakness in the local stock market and was exacerbated by the government's currency devaluation. I suspect that the country's issues and challenges are largely priced in at present levels.

5. Energy feels closer to the bottom. With oil prices continuing to plummet, some energy companies have started to cut dividends. But the precondition for oil prices to rise is ultimately lower prices and fear. We have plenty of that right now, which is why I am getting more interested in certain energy stocks.

6. Stock valuations have become more attractive. Frankly, I was becoming concerned that the market was getting ahead of itself, particularly given the numbers assigned to some privately held companies preparing to go public. The recent correction has been even more severe in this market segment, which is a good thing. I suspect we'll find a number of opportunities to invest in quality companies at favorable valuations in the coming weeks.

7. The Federal Reserve is more apt to hold off on raising rates now. I suspect that the initial increase anticipated to occur in September will be pushed out, probably until at least December. In my view, the Fed has been overly political and kept rates low for too long. Still, given the perceived fragility of the system, I don't expect any immediate moves.

8. Other central banks will remain accommodative. Rates are near record lows around the world, and governments everywhere are doing all they can to prop up economic growth. If market turmoil persists, we will likely see additional easing measures, which should be positive for the market.

9. Balance is important. Despite all the talk about potentially higher rates hurting bonds, the major fixed income indexes have held up well and bonds have shown their value during this time of equity volatility. Granted, I believe equities will do better than bonds over the next three years, but bonds play an important role in adding stability during an otherwise bumpy ride.

10. Turning off the TV will make it easier to get through these volatile periods. I'll end where I began, by reminding you to focus on the long term and not the scare tactics and shrill volume of the media. Listening to dire predictions is what causes people to pull out of the market at exactly the wrong time. Remember, our portfolios are invested in shares of quality companies with proven track records. These businesses are likely to continue to make money regardless of what's happening with the market. As I always remind clients, we buy companies, not markets. Despite periods of turbulence such as these we're experiencing now, the value of these holdings will ultimately be reflected in their share prices. Patience has always won out for long-term investors and provides opportunities for active managers to establish positions in companies with favorable prospects at more compelling valuations.

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