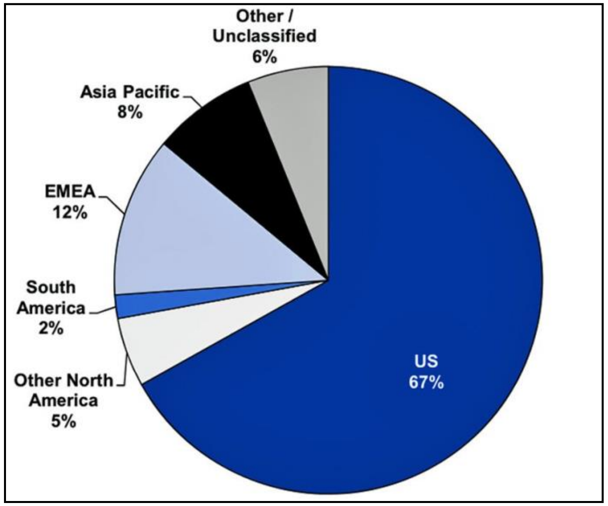
Market Recap

Frequency and Severity of Market Declines Since 1950

Total Occurrences	28 Times
Average Loss	-21.6%
Median Loss	-16.5%
Average Length	7.8 Months
Greater Than 20% Loss	9 Times
Greater Than 30% Loss	5 Times

Source: Morgan Stanley

S&P 500 Foreign Revenue by Region



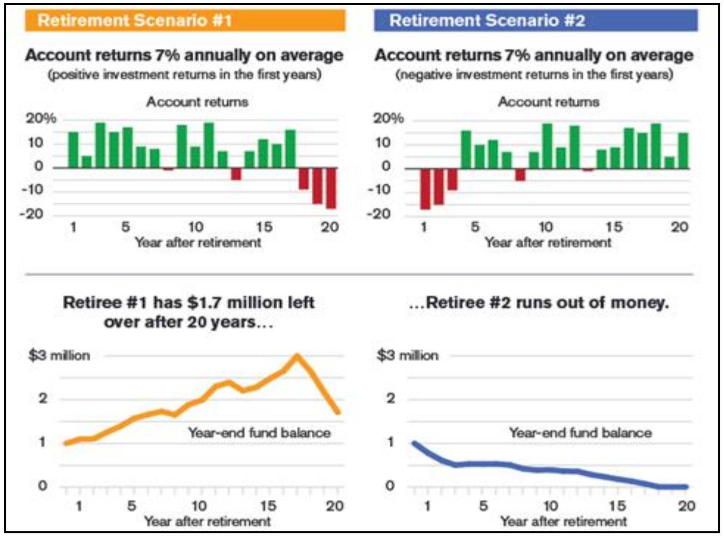
Source: Factset; Goldman Sachs

For some time, market watchers have been looking for a market pullback with the view that it would be "healthy" in order to put money to work at lower prices. However, corrections – of any degree - never feel healthy when they hit, and they lead investors to worry whether the market operates with binary outcomes - either a peak heading for a crash, or a bottom going straight up. Neither of these scenarios is typical in reality. Instead of moving from one inflection point to another, there is usually more of an ebb and flow, with shorter cyclical periods existing within a long-term secular cycle. Evidencing the frequency of cyclical downturns, since 1950, there have been nearly 30 instances in which stocks fell 10% or more, roughly once every two years (since 1928 ~ once a year). In that same timeframe, stocks suffered declines of 30% or more just five times (one out of every thirteen years).

The biggest story in the economy today is the disconnect between the continued growth in the U.S. and the struggles in Europe, Japan, and emerging markets. Large multinational firms are directly impacted by lagging growth outside of the U.S. as they generate much of their business abroad. In 2013, foreign sales represented one-third of S&P 500 companies' annual revenue. Companies reported that 12% of revenues came from EMEA (Europe, Middle East, Africa), with 7% directly attributable to Europe. A further 8% of revenue is attributed to sales in the Asia Pacific region. In addition to weak sales due to deteriorating foreign demand, these multinational companies face profitability headwinds due to the strengthening U.S. currency. With a strong U.S. dollar, the value of profits derived in foreign currency shrinks upon repatriation and subsequent conversion.

Market Recap

The Impact of Market Losses During Retirement



Source: Russell Investments

Public Health Emergency Preparedness Cooperatives Funding

Source: CDC

It is critical for retirees to develop a flexible plan for spending their hard-earned retirement dollars – one that may be adjusted as market returns change. In the era of defined contribution retirement plans such as 401(k)'s and IRA's, the burden of managing retirement distributions has shifted to the retiree – no pension administrator is providing oversight. Among other factors, retirees must consider market volatility, low interest rates, taxes, their health and the costs of healthcare, inflation, and legacy goals. Spending flexibility is key, particularly in the wake of market losses in the early years. As an example, the chart compares two hypothetical retirees with $1 million accounts, identical withdrawals, and the same set of annual returns - but in reverse order. With positive returns in the early years, retiree #1 had $1.7 million left after 20 years. Beset by negative returns at the start of the retirement period – and with no adjustment to withdrawals - the second retiree ran out of money by year 19.

In light of the current Ebola scare, all eyes are turning to the sufficiency of current funding for emergency public health preparedness – both in the U.S. and around the world. The topic is dominating the news, as well as debate within the United Nations and various international governments. In the U.S., the SARS epidemic resulted in one year of increased funding of the Centers for Disease Control and Prevention's emergency preparedness budget in 2006. Funding fell back to a reduced, albeit steady, level in subsequent years as the focus turned to the global financial crisis and the onset of war in several areas of the world. Today, the outbreak of Ebola in Africa and the threat of its continued march into other regions may result in heightened debate over public funding and preparedness for this, and other, international health pandemics.

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