September 2015

WealthManagement

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Market Insights

A periodic newsletter from Idaho Trust

Volatility in the global financial markets has increased in the past few months. Despite what appears to be an exceptionally volatile period, the past three years have experienced a relatively calm environment compared to prior years. Most major stock indexes have experienced a "correction" this summer. Many market commentators have tried to identify a reason for the sharp market decline, but these environments are a normal part of stock market activity and have historically occurred more often than has been the case in the past three years.

An Increase in Volatility

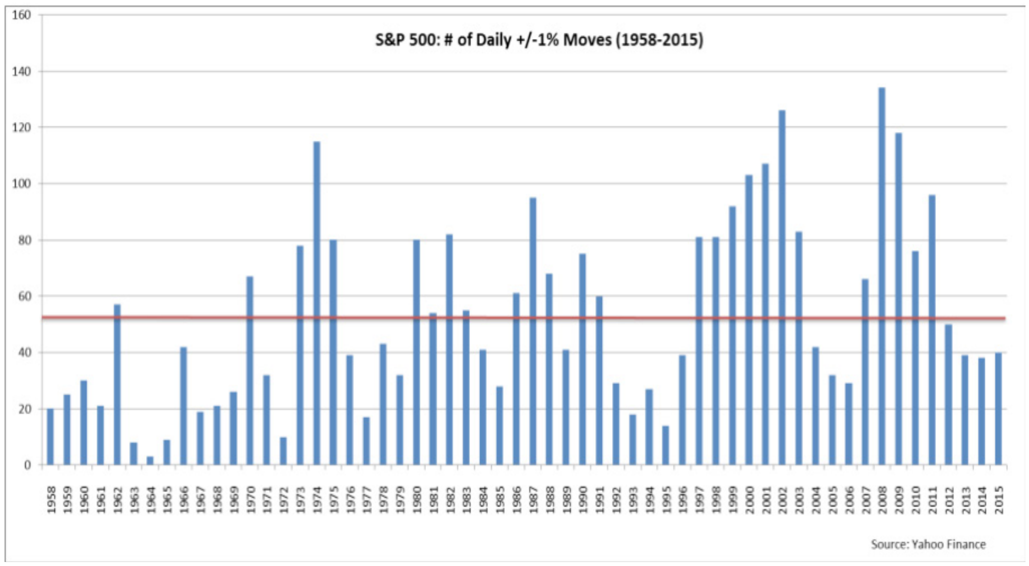
Although it may not feel like it, the U.S. equity markets have been relatively calm since 2012. One way to look at volatility is to count the number of days in any given year when the S&P 500 index moved up or down by more than one percent on any given day. The number of '1%' days has increased over the past few weeks. By the end of August, the number of days where the market had moved by more than 1% was 40 in 2015. This level has already exceeded last year's total of 38 and there still remain 4 months left in the year. In 2014, there were 19 positive days and 19 negative days, which despite these big moves cancelled each other out.

Interestingly, since 1958, the average number of times per year that the S&P 500 has moved up or down by more than one percent is 54 times. Consequently, for

Idaho Trust Bank offers total wealth solutions including its LifeNeeds™ investing process. The LifeNeeds™ investment process utilizes proven strategies and techniques delivered by a highly trained staff of wealth management professionals.

LifeNeeds™ wealth management accounts feature optimized asset allocations, robust security screening and Idaho Trust's unique TacticLogic™ investment process. All of which are tailored to our clients' unique financial needs.

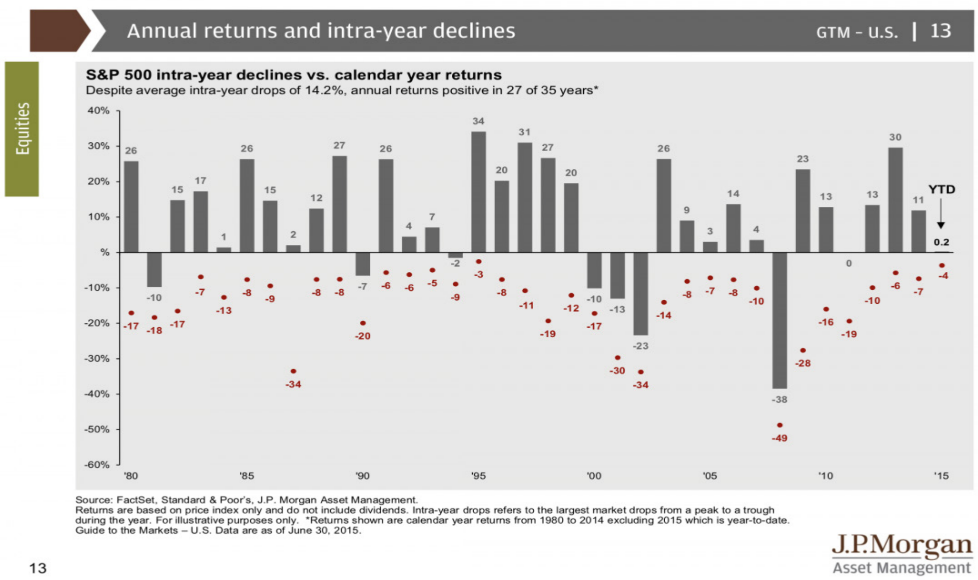
2015 to get in line with the average, we could experience 14 more days of these types of moves in the market. The graph below identifies the number of days when the stock market has moved up or down by 1% or more during each year. Looking at the graph you can clearly see that there have been several instances when the volatility has declined. These calm periods have then been followed by periods when the number of volatile days is well above the long term average. Please note that these 'volatile' years do not necessarily mean that the stock market declines for the year. In fact, in many of those years the market generated very strong double digit returns.



One percent days tend to pick up by the fifth or sixth year of a bull market, such as rallies of the 1980's, 1990's, and 2000's. We are currently in the seventh year of this bull market which started in 2009.

Stock Market Corrections

Most major equity markets are in the midst of a correction. Many market commentators have attempted to assign a reason for this action. However, we would like to provide some historical perspective to these events.
The chart below identifies the annual return of the S&P 500 each year since 1980. The grey bar represents the annual return each year, with the exception of 2015, which only includes the data through June 30th. The red dot below each bar shows the intra-year decline during that year. As you can clearly see from the data, market corrections occur every year. The smallest decline was 3% in 1995, and the market finished that year up 34%. However, in 1997 when the market rose 31%, the intra year decline was 11%. The average decline during the period from 1980 until 2014 was 14%.



The above graph clearly shows that high single digit or low double digit declines are common in most years. In fact, the last major correction occurred in 2011 when the market fell by 19%. Looking back as far as 1900, a 10% decline happens about once per year. The relatively long period of low volatility, as measured by daily swing in the market of 1% or more, was also accompanied by an extended period of time without a 10% decline.

A History of Declines (1900-December 2014)

Type of Decline	Average Frequency[1]	Average Length[2]	Last Occurrence	Previous Occurrence
-5% or more	About 3 times a year	46 days	December 2014	October 2014
-10% or more	About once a year	115 days	October 2011	July 2010
-15% or more	About once every 2 years	216 days	October 2011	March 2009
-20% or more	About once every 3½ years	338 days	March 2009	October 2002

Source: Capital Research and Management Company

[1]Assumes 50% recovery rate of lost value.

[2]Measures market high to market low.

Conclusion

Given the extended period of low volatility and minimal corrections in the stock market, it is normal to expect a period of high volatility. Despite a likely increase in market gyrations, there is little doubt that the stock market generates solid returns over longer periods of time.

S&P 500 Index

3 Month	-5.92%
Year-to-Date	-2.88%
1 Year	0.47%
3 Year	14.30%
5 Year	14.29%

MSCI EAFE Net Index

3 Month	-8.11%
Year-to-Date	-0.21%
1 Year	-7.47%
3 Year	8.53%
5 Year	5.84%

Barclays Aggregate Bond Index

3 Month	-0.55%
Year-to-Date	0.45%
1 Year	1.55%
3 Year	1.53%
5 Year	3.09%

As of 8.31.2015

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