Memo

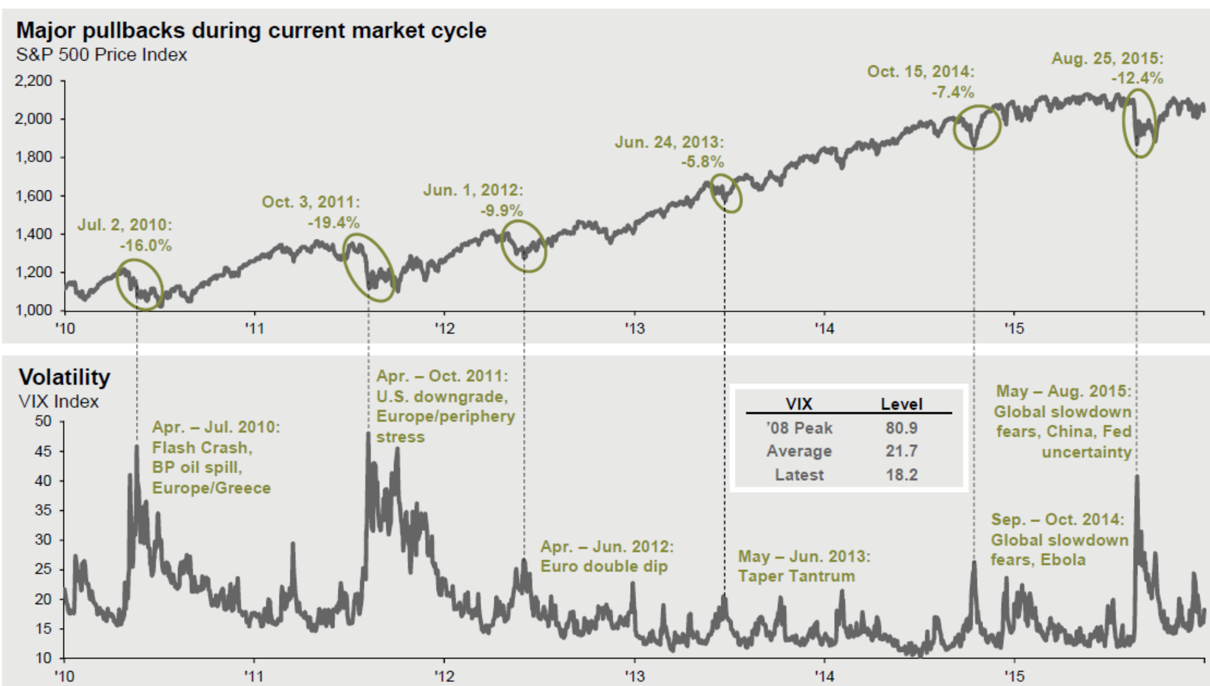
From: Beacon Pointe Advisors

To: Beacon Pointe Clients

Date: January 7, 2016

Re: Market Volatility

Over the first week of 2016, just as this past August and again in late September, the main theme within financial markets has been volatility. The VIX Index (the most widely used measure of stock market volatility) jumped 36% in just four trading days. Meanwhile, the S&P 500 Index lost approximately 5% over the same year-to-date period. It currently stands at 1,943, well above the 1,868 level reached in August 2015, which marked the low for last year. In fact, there have been a number of pullbacks during the current market cycle, which commenced in March 2009.

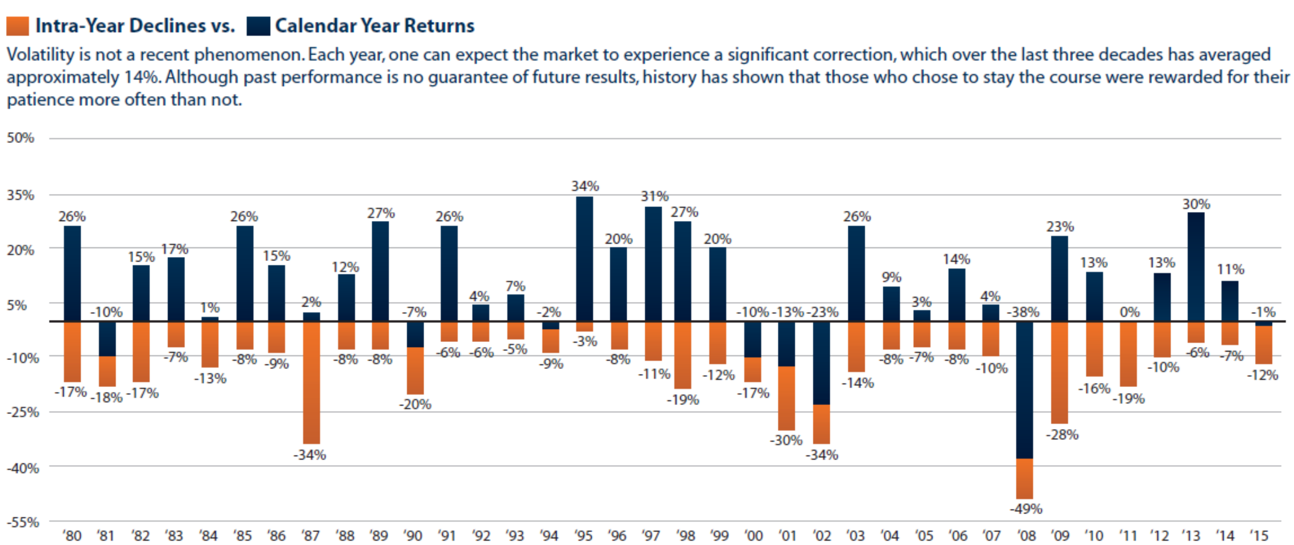


Source: J.P. Morgan, FactSet, Standard & Poor's

To reiterate what we have communicated to clients over the past couple of weeks, some risks were already on investors' minds as 2015 drew to a close. Among those were the pace and trajectory of the Fed's tightening, a slowing manufacturing sector domestically, plummeting oil prices, and persistent growth challenges in China, the world's second largest economy. This week added to the "worry list" a cornucopia of economic and geopolitical risks, including:

- Renewed sell-off in the Chinese equity market, which had spillover effects in Europe and the U.S. The main catalysts for that, it seems, were related to currency movements and the latest manufacturing data coming out of China. We continue to believe that the Chinese government is trying to shift the economy from an export and infrastructure driven economy to a more service-oriented economy. As this shift occurs, there will be downward pressure on sectors such as capital goods, but service sectors and consumer-oriented sectors should benefit.
- The tensions between Saudi Arabia and Iran have escalated. However, a lot of the current pronouncements are grandstanding; when saner heads prevail, things will likely go back to normal with the two countries fighting proxy wars in Yemen, Syria, Lebanon, and Iraq. There will likely be no clear winner, so the Middle East is set for long-term unrest. It is hard to imagine either country fighting the other directly since neither regime is strong enough to withstand such a conflict and not have internal unrest threaten its own power. This likely means that oil prices will fluctuate. We note, however, that even with the recent developments in Saudi Arabia and Iran, oil prices have remained in the low-to-mid $30s.
- North Korea came back into the geopolitical spotlight with its announcement of successfully testing a hydrogen nuclear bomb. These claims have been met with some skepticism, but have nonetheless contributed meaningfully to an already souring investor sentiment worldwide.

Volatile markets inevitably remind investors of the 2008 experience. Today's environment is different from that of eight years ago, however. What we had then was a potential systemic failure of global financial markets. Notwithstanding the myriad concerns that have come to the forefront this week, the world is on sounder footing now than it was then. Looking back it seems there is always some turmoil to disrupt markets and disturb some investors. Intra-year declines have averaged -14% over the last thirty plus years, as illustrated in the chart below. This (the current period of higher volatility) too shall pass. History suggests that for those investors who are properly diversified and have positioned their portfolios prudently, the best course is not to panic, but to confidently remain invested until markets ultimately calm and begin another advance forward. Beacon Pointe's client portfolios are built with both risk and return considerations in mind. We recognize that, while unnerving at times, volatility is a natural and necessary part of the market's long-term course. It also creates valuation opportunities for investors and professional money managers and reinforces the benefits of diversification.



Source: FirstTrust Advisors, Bloomberg

Please feel free to call your advisor at Beacon Pointe should you need additional information or have any questions.