Polaris Greystone FINANCIAL GROUP, LLC

Polaris Greystone Educational Series

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There is No Reason to Panic

Understandably we have been receiving several e-mails and calls expressing concern about "the markets." As I write this note on the evening of January 13th, the S&P 500 has dropped 7.45% for the year and is down 10.40% from the highs experienced back on November 3rd (please see the graph below). This does put us in "bear" territory from the November highs. We have not broken below August or September lows experienced in 2015. If you notice, in both cases the S&P 500 fought back and recovered the short-term losses experienced at the time.

S&P 500 — August 2015 to January 2016

Source: Google Finance.

I want to reiterate a few things about the market that will hopefully give you some comfort:

1) **Historically, the S&P 500 has four 5% drops per year.**

2) **The S&P 500 typically has at least one 10% drop per year.**

3) **Over the past 33 years, the S&P 500 has had an average of a 13.89% intra-year decline and yet has still provided an average annualized total return of 11.20% (see on the next page). Only five of these years produced a negative total return.**

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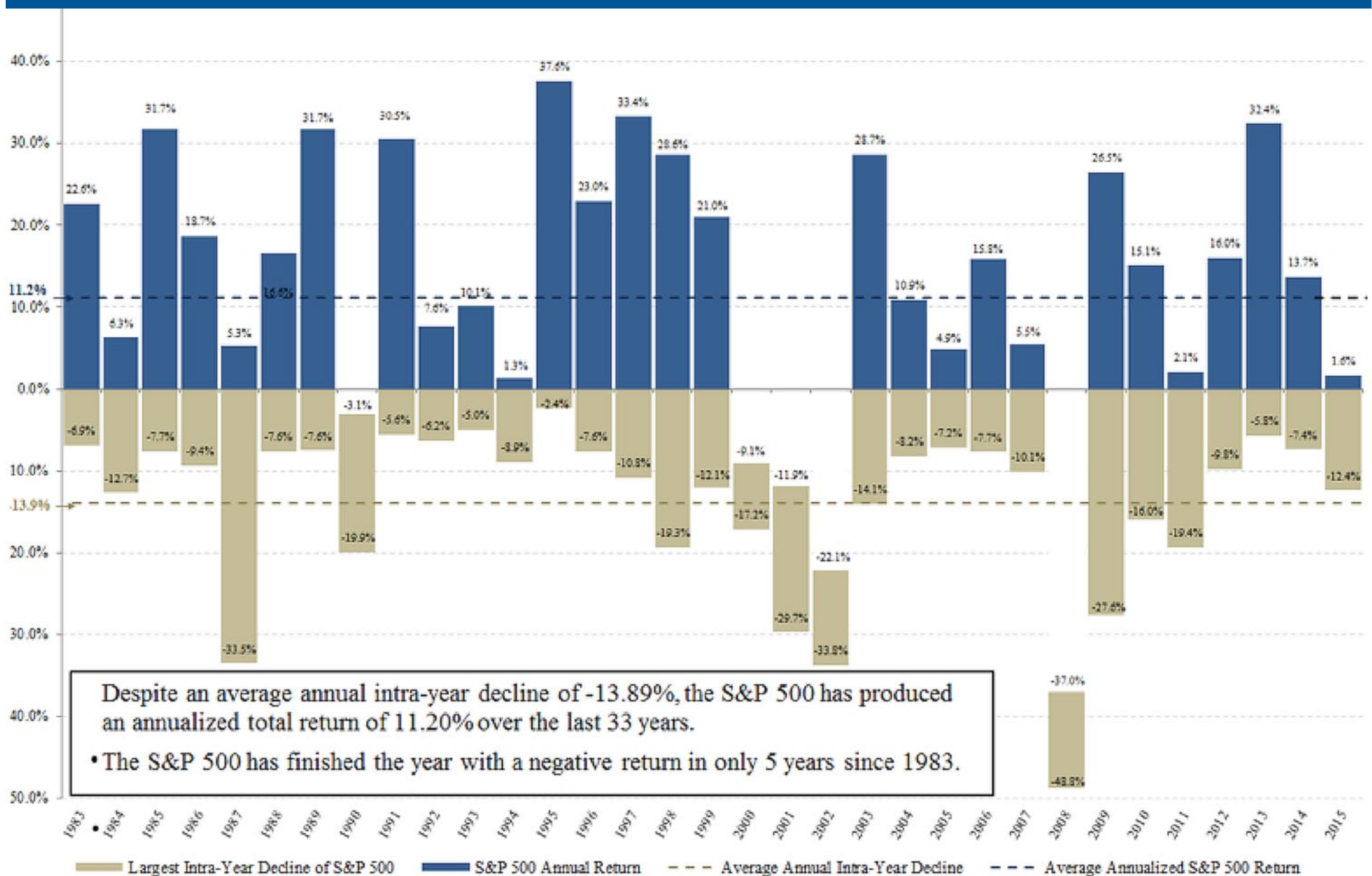
S&P 500 Annual Returns vs. Intra-Year Declines — 1983 - 2015



Sources: Polaris Greystone Financial Group, Standard & Poor's. All information contined in this presentation is considered to be accurate but cannot be guaranteed for its accuracy. Thus, all information contained herein is provided "as is" and without warranty of any kind, either expressed or implied. Investments are subject to risk. Past performance is not indicative of future returns. Data are as of 12/31/15.

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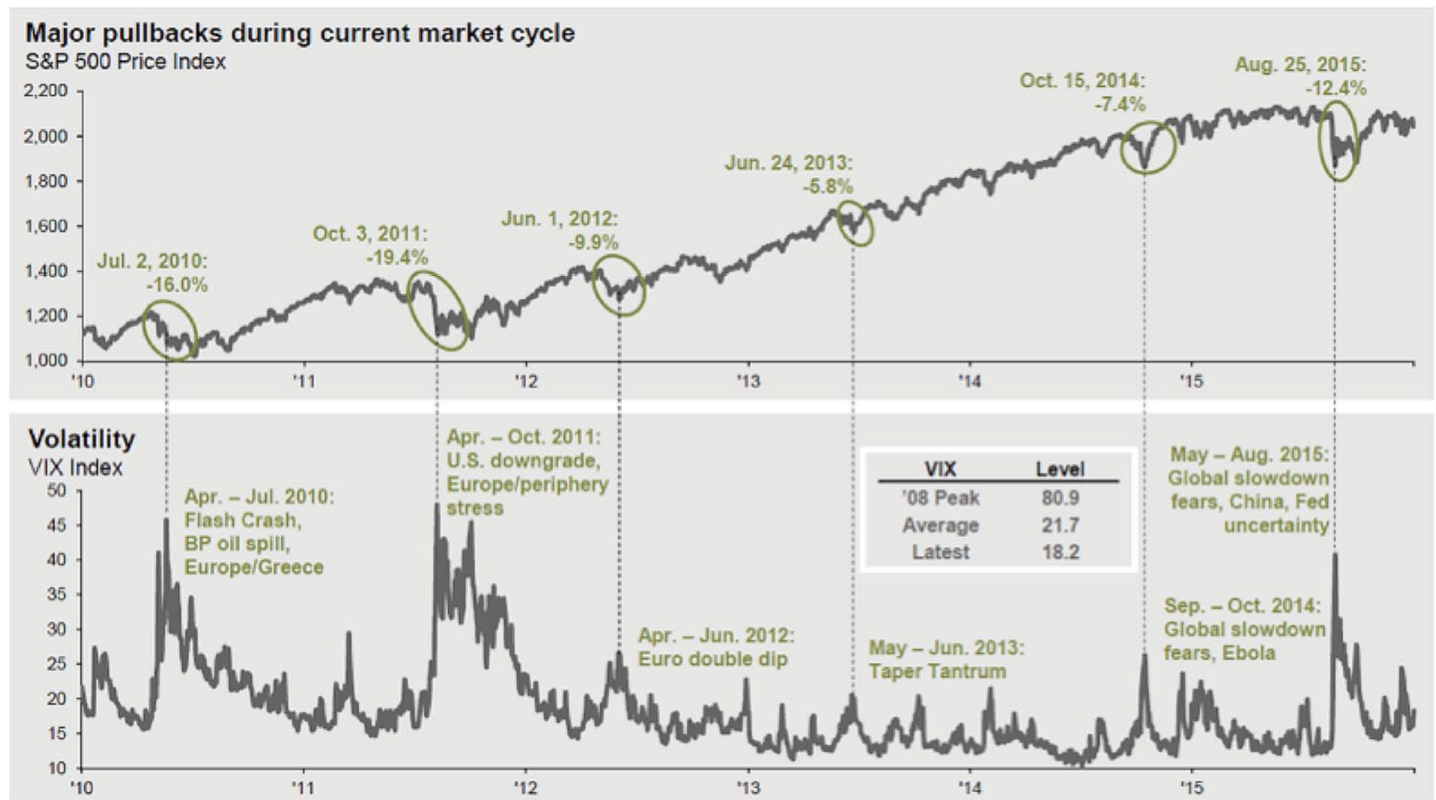
I also wanted to provide you a graph of the markets from 2010 thru 2015 (as seen below). During this time we have experienced six corrections, yet the S&P 500 still grew substantially during this time. Each year there was some "newsworthy" story about why the stock market was correcting. This drove the volatility index, called the VIX, up substantially in most cases. Right now the VIX stands at 25, slightly above its historical norm of 21. If you had sold out at any of these points you would have missed out on growing your portfolio.



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management; (Bottom) CBOE.
Guide to the Markets – U.S. Data are as of December 31, 2015.

Nothing fundamentally has changed during the last few weeks to substantiate the size of the selloff in the stock markets over such a short period of time. This selloff is what is referred to as a sentiment driven selloff. High levels of fear about the global markets, China's slowdown, and continued energy and commodity weakness are the culprits. There is also concern that the Fed may have prematurely raised rates in December and/or we will have to push back future rate hikes if concerns over global markets do not subside. The market is oversold on a short-term basis and we expect the market to rebound from these levels. It appears we are testing the August lows from last year. It is common for the market to retest its lows when the market is trying to find a bottom. We are looking to see the market stabilize here and use this as an opportunity to buy on the dip. If we break the support level of August's lows and global risks continue to weigh on the US stock market, then we would continue to take off even more equity exposure in high beta (more volatile) stocks and look to allocate to more defensive areas.

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The US economy looks strong with continued job growth despite weak inflation and stagnant wage growth, and we do not see the US economy entering a recession at the current time. There have been extreme headlines out in recent days like Royal Bank of Scotland's call to sell everything because credit markets look like they did in 2008. We do not agree with these views as the evidence is not there to support such a claim currently. Banks are much better positioned than they were in 2008, with much more regulation. The financial industry does not have the same extreme high leverage and reckless behavior previously seen during the financial crisis. Credit default concerns seem to be limited to the extremely low quality companies in the fixed income market in sectors like energy. Households also are continuing to deleverage themselves. The opposite is typically true going into a recession. There are also stricter lending requirements in place. The financial sector has risen in anticipation of rate hikes and the expectation that this would be beneficial for the sector. The recent weakness in the sector has been attributed to investors' concerns that the expected benefits may not pan out or that they bought too early. Banks kick off earnings season starting tomorrow, so we will be watching earnings for further expectations on the direction of the US stock market.

We are currently underexposed to the stock market across all of our investment strategies. As we've discussed in many previous e-mails, Polaris Greystone Financial Group manages money using our proprietary tactical investment strategies. When our research indicates that risk is increasing for stocks, we lower our exposure. As we get confirmation that we are correct, we will lower the exposure even more. We are a dimmer switch, not an on/off switch. We move the dial up or down depending on the risk that our research indicates. We are not market timers. We aren't "all in" or "all out" depending on our research. As I often say, "I'd rather be partially correct than completely wrong."

Our investment team is diligently watching your investments and assessing the risk in the market. We will continue to manage your money in a well thought out, clinical, and quantitatively driven manner to remove emotions from our investment decisions. Soon, the headlines that created this short-term drop in the markets will be a long forgotten blip on a chart and you will be thankful that you didn't allow your emotions to get the better of you.

As always, I welcome your comments and questions.

Sincerely,

Jeffrey J. Powell
Managing Partner

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