



A Different Kind of Volatility

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It's not just the stock market that's seen a spike in volatility. It's opinions *about* the stock market from so-called market experts.

The rapid-fire change in outlook was driven home for me the other week when two news alerts came out that showed just how fickle views can be. The first headline blared that a global bear market was just getting started. Less than 24 hours later, most everyone agreed the markets were primed to rally in 2019.

The whipsaw of opinion would be funny if it weren't for the headaches it causes professionals trying to be the voice of reason for clients who understandably fear the unknown. It would be irresponsible for me to add to the noise of short-term predictions by offering up yet another guess dressed up with investment buzzwords. Instead, I'll leave you with the chart below that shows how shares of small companies have performed after other sharply negative quarters.

4Q18 was 11th Worst Small-Cap Return Since 1940

Quarter	Quarter Return	Quarter	Year	3-Years (Ann.)	5-Years (Ann.)
Jun 1970	-29.9	28.4	60.0	5.5	7.8
Dec 1987	-29.1	19.1	25.0	5.4	15.1
Dec 2008	-26.1	-15.0	27.2	15.6	20.1
Sep 1990	-24.5	5.1	45.1	28.2	21.7
Sep 1946	-24.3	2.5	-1.3	0.8	13.1
Jun 1962	-24.0	2.9	25.5	16.5	21.2
Sep 2011	-21.9	15.5	31.9	21.3	15.8
Jun 1940	-21.7	12.0	15.2	29.3	30.6
Sep 2002	-21.4	6.2	36.5	24.1	18.8
Sep-2001	-20.8	21.1	-9.3	13.7	13.8
Dec-2018	-20.2				
Sep 1998	-20.1	16.3	19.1	5.0	7.5
Average		10.4	25.0	15.0	16.9
Median		12.0	25.5	15.6	15.8
Maximum		28.4	60.0	29.3	30.6
Minimum		-15.0	-9.3	0.8	7.5
% Positive		91%	82%	100%	100%

Source: Furey Research Partners, CRSP, and Russell®, as of 12/31/2018

CRSP: Derived from US Stock Database ©2019 Center for Research in Security Prices (CRSP) the University of Chicago Booth School of Business, and includes all equity securities in NYSE, Amex, NASDAQ and NYSE Acra that existed during the time period. In this chart, CRSP 6-8 decile Index returns (1940 to 1978) and Russell 2000® Index returns (1979 to 2018) represent Small-Caps. All indices are unmanaged. It is not possible to invest directly in an index.

Past performance does not guarantee future results.

Do these numbers mean that we'll see a double-digit rebound in the coming weeks and months? Honestly, no one can say. What they do suggest, in my view, is that investors who have taken a longer view, or have avoided falling victim to the never-ending cycle of analysis, have historically done pretty well for their clients.

Disclosure:

Past performance does not guarantee future results.

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Heartland Advisors defines market cap ranges by the following indices: micro-cap by the Russell Microcap®, small-cap by the Russell 2000®, mid-cap by the Russell Midcap®, large-cap by the Russell Top 200®.

Definitions: American Stock Exchange (AMEX): the third-largest stock exchange by trading volume in the United States. Bear Market occurs when the price of a group of securities is falling or is expected to fall. NASDAQ: is a global electronic marketplace for buying and selling securities, as well as the benchmark index for U.S. technology stocks. NASDAQ was created by the National Association of Securities Dealers (NASD) to enable investors to trade securities on a computerized, speedy and transparent system, and commenced operations on February 8, 1971. New York Stock Exchange (NYSE): is based in New York City and considered the largest equities-based exchange in the world based on total market capitalization of its listed securities. NYSE Arca: is a securities exchange in the U.S. on which stocks and options are traded. Russell 2000® Index: includes the 2000 firms from the Russell 3000® Index with the smallest market capitalizations. All indices are unmanaged. It is not possible to invest directly in an index.

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