

Cutting Through the Noise

Rick Wurster, CFA, CMT
Chief Executive Officer

Bryan Olson, CFA
President

Christian Menegatti, Ph.D.
Chief Investment Strategist

November 9, 2016

At Windhaven we are long-term investors seeking capital appreciation while managing downside risk over full market cycles and diversifying investments across the globe and asset classes.

Much to the surprise of pollsters and markets, Donald J. Trump became the 45th President-Elect of the United States. In a recent piece ([U.S. Election and Your Portfolio](#)), we observed that any departure from the status quo expected by the polls could become a source of short-term uncertainty and volatility in global markets. Much like for the Brexit vote this summer, the initial market response to the surprising 2016 presidential election result was a sell-off across global equity markets and a flight towards traditional safe haven asset classes like gold, the Japanese yen or the U.S. dollar.

The parallel with the Brexit vote surprise should serve as a reminder that important events have an impact, especially when the outcome is not in line with consensus. However, that impact is often short lived and markets go back to paying attention to fundamentals and behavioral factors. In the aftermath of the Brexit vote, equity markets resumed the ascent that began in mid-February, shrugging off the short-term event shock and going back to what should drive market pricing: fundamentals and behavioral factors. Moreover, empirical evidence shows that specific election-related volatility historically tends to stop increasing after Election Day; there is limited evidence of any relationship between party affiliation and market returns.¹

Chart 1: Global equity market recovery after Brexit vote

Source: Bloomberg as of 11/8/2016. Emerging market equities represented by MSCI Emerging Market Index. Developed market equities represented by MSCI World Index.



At Windhaven, we believe in remaining true to our investment philosophy and in following a disciplined investment process that leads us to build well diversified strategies that are dynamically managed to seek opportunities and manage downside risk. When making investment decisions we choose not to spend time prognosticating over political events and potentially short-term market reactions, but rather focus tactically on the fundamental and behavioral relationships driving the global economy and markets. We then build diversified strategies with an emphasis on asset classes with attractive fundamental and behavioral characteristics. We believe this approach allows us to dampen the potential volatility and drawdown that can come from unexpected events or data while positioning for longer-term opportunities.

Source:

¹Vanguard: <https://investor.vanguard.com/investing/election-impact-portfolio-112016>

Important Notes and Disclosures:

The information provided herein is for general informational purposes only and should not be considered an individualized recommendation or personalized investment advice. The investment strategies mentioned here may not be suitable for everyone. Each investor needs to review an investment strategy for his or her own particular situation before making any investment decision.

All expressions of opinion are subject to change without notice in reaction to shifting market conditions. Data contained herein from third party providers is obtained from what are considered reliable sources. However, its accuracy, completeness or reliability cannot be guaranteed.

International investments may involve additional risks, which could include differences in financial accounting standards, currency fluctuations, political instability, foreign taxes and regulations, and the potential for illiquid markets. Investing in emerging markets may accentuate these risks.

Past performance is no guarantee of future results.

Windhaven's risk management process includes an effort to monitor and manage risk, but should not be confused with and does not imply low risk or the ability to control risk. Windhaven Investment Management, Inc. ("Windhaven") is a registered investment advisor and an affiliate of Charles Schwab & Co., Inc. **Please refer to Windhaven's ADV Part 2 for additional information.** 11/2016 (1116-PH7G)