

Recent World Events and the Stock Market

Many worldwide events impacted the daily fluctuation of prices in the U.S. stock market, including the Federal Reserve's bond-buying program, corporate earnings, the job market and economic slowdowns in countries around the world.

Fluctuation of prices in stock markets around the world is a normal part of everyday trading activity. Just like an auction house, where supply and demand help to drive the price of collectibles, antiques and other auctioned items, stock market shares are not immune to the mechanics of supply and demand. However, supply and demand are not the only factors that impact stock prices. In fact, external events, such as political elections, the job market and a country's inability to pay off its debt can impact trading activity.

To understand if a relationship exists between price fluctuations in the stock market and noteworthy worldwide events, performance information was gathered for the Dow Jones industrial average (Dow) for the month period of Sept. 15, 2013 to Oct. 15, 2014.

Information also was obtained for the Chicago Board Options Exchange Volatility Index (VIX) to understand expectations of near-term market volatility during the same period. Often referred to as the fear index or fear gauge, VIX shows the stock market's expectation of 30-day volatility. This volatility is meant to be forward-looking and is calculated from both calls and puts.

After examining high and low points for the Dow and VIX during the 13-month period, research was performed to identify the events that could have impacted market performance and investor sentiment.



MARKET DATA

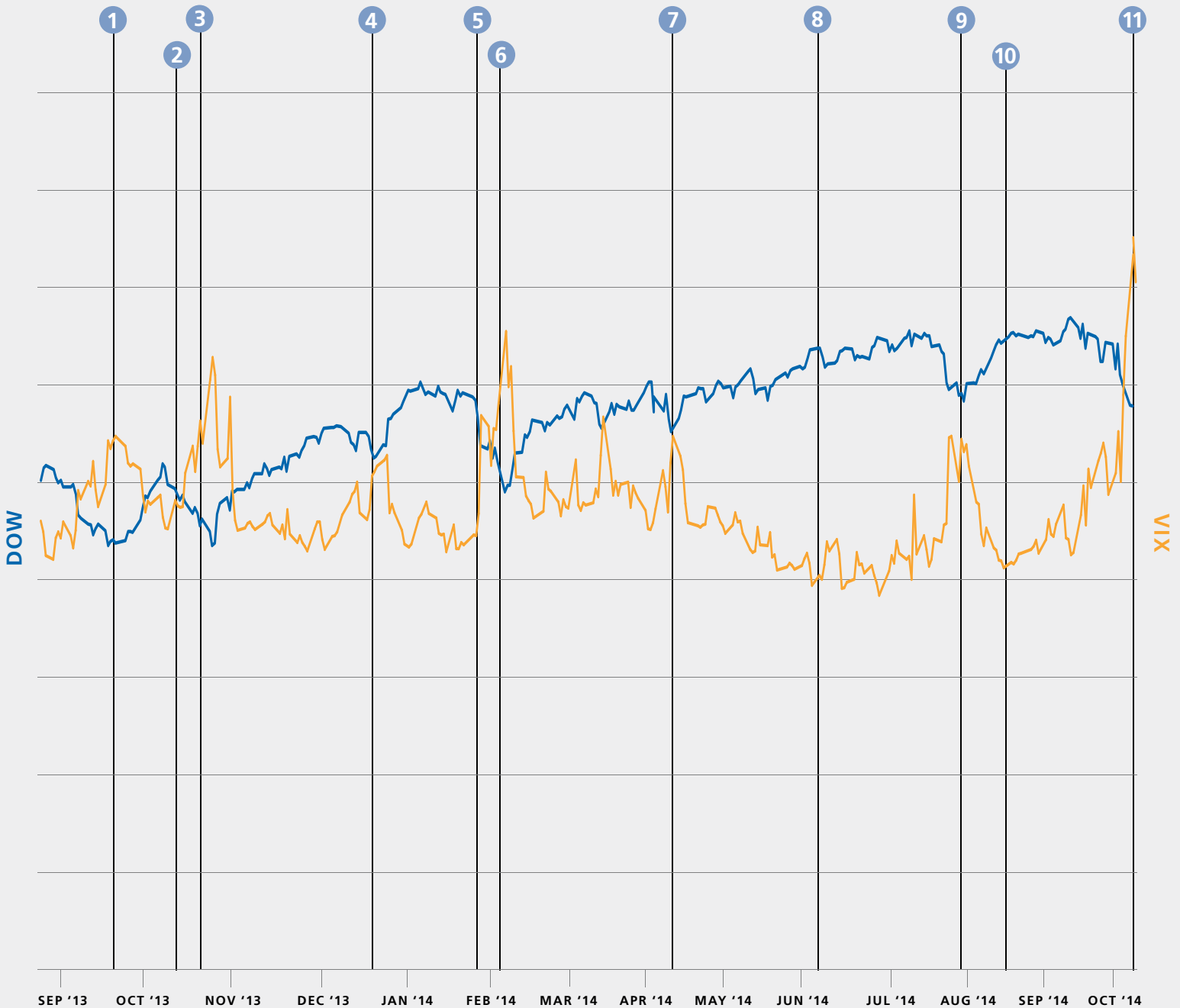
The highs and lows in Figure 1 illustrate the rise and fall of the Dow for each date and corresponding volatility fear levels. As the chart illustrates, the two tend to be inversely related — spikes in anticipated volatility in generally occur around the same time as declines in the Dow, and vice versa.

To Interpret Figures 1: The numbers in each figure correspond to the dates examined. For an explanation of the events that could have impacted both the Dow and VIX refer to “Key Dates and Events.”

Figure 1:

— The Dow Jones Industrial Average: Sept. 15, 2013 to Oct. 15, 2014

— The Chicago Board Options Exchange Volatility Index: Sept. 15, 2013 to Oct. 15, 2014



SOURCE: Yahoo! Finance News, October 14, 2014, <http://www.finance.yahoo.com>.

KEY DATES AND EVENTS

The percentages below are calculated based on the day or days of trading activity noted.

- 1 SEPT. 19, 2013: DOW DOWN 0.26% AND VIX UP 1.08%**
U.S. stocks hit record highs after the Federal Reserve announced it would continue buying bonds at a pace of US \$85 billion a month to stimulate the economy.¹
- 2 OCT. 9, 2013: DOW UP 0.17% AND VIX DOWN 2.92%**
The Dow, Nasdaq Composite index and Standard & Poor's 500 index all increased more than 1 percent after Congress approved a bill extending the country's borrowing authority.²
- 3 OCT. 17, 2013: DOW UP 0.01% AND VIX DOWN 7.16%**
The stock market ended on a higher note compared to previous days, as investors turned their attention away from fiscal policy in Capitol Hill to corporate earnings including better than expected results.³
- 4 DEC. 18, 2013: DOW UP 1.84% AND VIX DOWN 13.48%**
The Federal Reserve's news to scale back its quantitative easing program earlier than expected resulted in positive stock market activity, pushing the Dow to its 45th record high in 2013 and also leading to record highs for the S&P 500.^{4, 5}
- 5 JAN. 24, 2014: DOW DOWN 2% AND VIX UP 19.6%**
The Dow fell to a five-week low due to weak economic data from China and the Fed's decision to begin pulling back on its bond-buying stimulus program.^{6, 7}
- 6 FEB. 3, 2014: DOW DOWN 2.07% AND VIX UP 15.46%**
Both the Dow and S&P 500 ended the day with the steepest declines in several months and the volatility index jumped to a level not seen since Dec. 28, 2012. This was due, in part, to the release of discouraging survey results on the manufacturing industry and continued concerns over an economic slowdown in China.^{8, 9}
- 7 APRIL 11, 2014: DOW DOWN 0.88% AND VIX UP 2.22%**
The Nasdaq fell below 4,000 and the other main indexes dropped by 1 percent after an extended sell-off in the technology sector.¹⁰ The European and Japanese stock markets also were impacted by the sharp sell-off in Internet and biotechnology shares.¹¹
- 8 JUNE 5, 2014: DOW UP 0.58% AND VIX DOWN 3.39%**
U.S. stock indices soared to record highs as markets cheered the European Central Bank's decision to cut interest rates and implement stimulus efforts to help the Eurozone economy.^{12, 13}
- 9 JULY 31, 2014: DOW DOWN 1.82% AND VIX UP 18.12%**
U.S. share prices fell due to disappointing earnings reports by a few major companies. In addition, Argentina defaulted on its debt for a second time in 12 years, and conflicts in the Ukraine and Middle East helped to fuel further trading unrest.^{14, 15}
- 10 AUG. 21, 2014: DOW UP 0.33% AND VIX DOWN 1.42%**
U.S. stocks logged their fourth straight daily gain, closing at a record high due to news of increasing home sales and positive reports on the manufacturing front. In addition, the number of Americans filing new claims for unemployment benefits fell, signaling strength in the economy.^{16, 17}
- 11 OCT. 13, 2014: DOW DOWN 1.30% AND VIX UP 16.45%**
The stock market fell sharply after its biggest weekly drop in more than two years. Investors were concerned that economic growth in Europe and Asia could be slowing, thus impacting the U.S. economy. In addition, worries about deflation, negative news on the U.S. economy and the Ebola crisis also impacted trading activity.^{18, 19}

CONSIDER ALL ALTERNATIVES

Financial advisors need to choose investment products that are aligned to meet client goals. This is why when considering an investment strategy, it is important to understand that all types of investments — traded, liquid assets and non-traded, illiquid assets — are impacted by economic, social and political turmoil in different ways.

In addition, non-traded, illiquid investments are priced less frequently and could be worth less than the share's value at

any point in time. However, non-traded investments are not subject to investor sentiment, which can result in the more volatile, daily price swings experienced in the stock market. Incorporating noncorrelated, illiquid assets to an investment strategy also may help to counterbalance the daily volatility of traded investments in a portfolio. Because of these different investment characteristics, traded and non-traded investments are often considered mainstays in a diversified portfolio.

¹ Mark McSherry, "Stocks Hit Record As Fed Keeps Bond Buying at \$85B a Month," *Forbes*, September 19, 2013.

² Paul Ausick, "The Economic Impact of the Government Shutdown: \$24 Billion Lost," *Wall Street Journal*, October 9, 2013.

³ Kate Gibson, "U.S. Stock Climb; S&P 500 Hits Records High," *MarketWatch*, October 17, 2013.

⁴ E.S. Browning, "Relieved Investors Cheer Fed Move," *Wall Street Journal*, December 18, 2013.

⁵ Anora Mahmudova, "U.S. Stocks Soar As Fed Moves to Reduce Stimulus," *MarketWatch*, December 18, 2014.

⁶ Nathaniel Popper, "Economic Shifts in U.S. and China Batter Markets," *The New York Times*, January 24, 2014.

⁷ Anora Mahmudova, "U.S. Stocks Fall on China Worries; Dow at 5-Week Low," *MarketWatch*, January 24, 2014.

⁸ Nathaniel Popper, "As Recovery Looks Weak, Stocks Take a Deep Dive," *The New York Times*, February 3, 2014.

⁹ Anora Mahmudova, "U.S. Stocks See Worst Selloff in Several Months," *MarketWatch*, February 3, 2014.

¹⁰ Victor Reklaitis, "Stocks Suffer Big Weekly Loss; Nasdaq Below 4,000," *MarketWatch*, April 11, 2014.

¹¹ David Jolly and Hiroko Tabuchi, "U.S. Markets Quiet After Global Sell-Off," *The New York Times*, April 11, 2014.

¹² Andrea Tse, "Stocks Close at Record Highs on ECB's Unprecedented Rate Cut," *TheStreet*, June 5, 2014.

¹³ Chris Dieterich, "U.S. Stocks Rally to Record Close After ECB's Interest – Rate Moves," *Wall Street Journal*, June 5, 2014.

¹⁴ "S&P 500 Reports Steepest Drop Since April," *DanielsTrading.com*, August 1, 2014, <http://www.danielstrading.com>.

¹⁵ Jeff Sommer, "Stock Market Ends July in Dive, But Analysts Are Upbeat," *The New York Times*, July 31, 2014.

¹⁶ Victor Reklaitis and Barbara Kollmeyer, "U.S. Stocks: S&P 500 Sets Record Close; Dow Regains 17,000," *MarketWatch*, August 21, 2014.

¹⁷ Reuters, "Home and Jobs Data Suggest Momentum," *The New York Times*, August 21, 2014.

¹⁸ The Associated Press, "Market Plummets in Late-Day Sell-Off," October 13, 2014.

¹⁹ William Watts et al., "Here's What Drove the Market Meltdown," *MarketWatch*, October 15, 2014.

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