

Commentary

A Wild Ride—Taking a Closer Look at Recent Market Volatility

By: SEI Investment Management

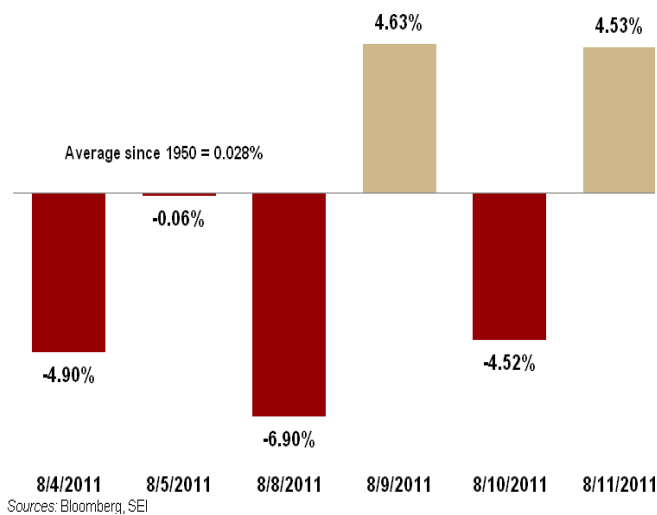
Global financial markets experienced significant volatility earlier this month, with average daily movements of 4.25% in the S&P 500 from August 4 to August 11.

Looking at the historic day-to-day changes in the S&P 500 since 1950, we find that the average change is 0.03%, and the average magnitude of these changes is 0.65%. In other words, the average daily movement, whether up or down, has been slightly more than half of a percent. If we applied normal statistical assumptions to the data, a change of 3% or more would be quite surprising.

Of course, the history of financial markets shows that they do not obey normal statistical assumptions. There have been daily changes that fell well outside expected norms (the decline of over 22% on October 19, 1987 is the ultimate example thus far). However, changes of more than 3% are still rare; only about 1.3% of daily S&P 500 changes have exceeded a magnitude of 3%.

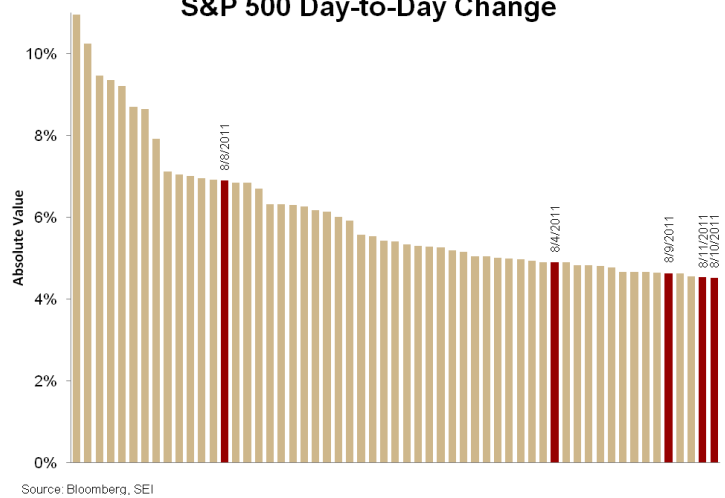
That puts the days between August 4 and August 11 in stark perspective, with their returns of -4.90%, -0.06%, -6.90%, +4.63%, -4.52% and +4.53%, respectively. The ratio of daily S&P 500 returns ran from roughly seven to ten times its long-term average. Exhibit 1 highlights the changes.

Exhibit 1: Daily Changes in the S&P 500



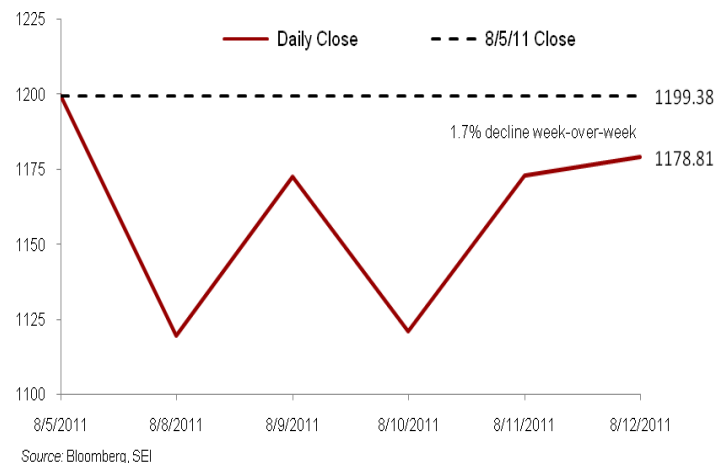
Despite that, only one of the six days fell within the top 15 one-day changes, two within the top 50, and all but one of the rest (August 5) within the top 60, as shown in Exhibit 2.

Exhibit 2: Magnitude of Daily Changes, 1950-Present
S&P 500 Day-to-Day Change



Of perhaps greater interest to investors is that, after all of the extreme volatility was taken into account, the S&P 500 finished less than 2% below the prior Friday's close, as shown in Exhibit 3.

Exhibit 3: S&P 500 Closing Daily Values



Our View

Despite the recent volatility, our view of the markets remains intact. Strategically, the U.S. economy appears to have entered a soft patch from which it is likely to emerge without entering recession. Equity valuations appear attractive to us, and we believe Treasury prices are rich. Unfortunately, markets continue to react in an irrational fashion, and we expect them to continue to do so until the European debt situation is resolved, the U.S. debt ceiling is permanently addressed and the 2012 elections have come and gone.

For investors, times like these underscore the importance of employing a time horizon that is appropriate to your objectives, implementing an appropriate asset allocation and maintaining a disciplined approach to portfolio rebalancing to keep your goals and your investments aligned. Most of all, volatile times provide a reminder that your investment strategy should be driven by your needs, not by market movements. If short-term market movements cause you to panic, it may be time to reevaluate your investment strategy to ensure that it remains aligned with your goals and time horizon.

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