

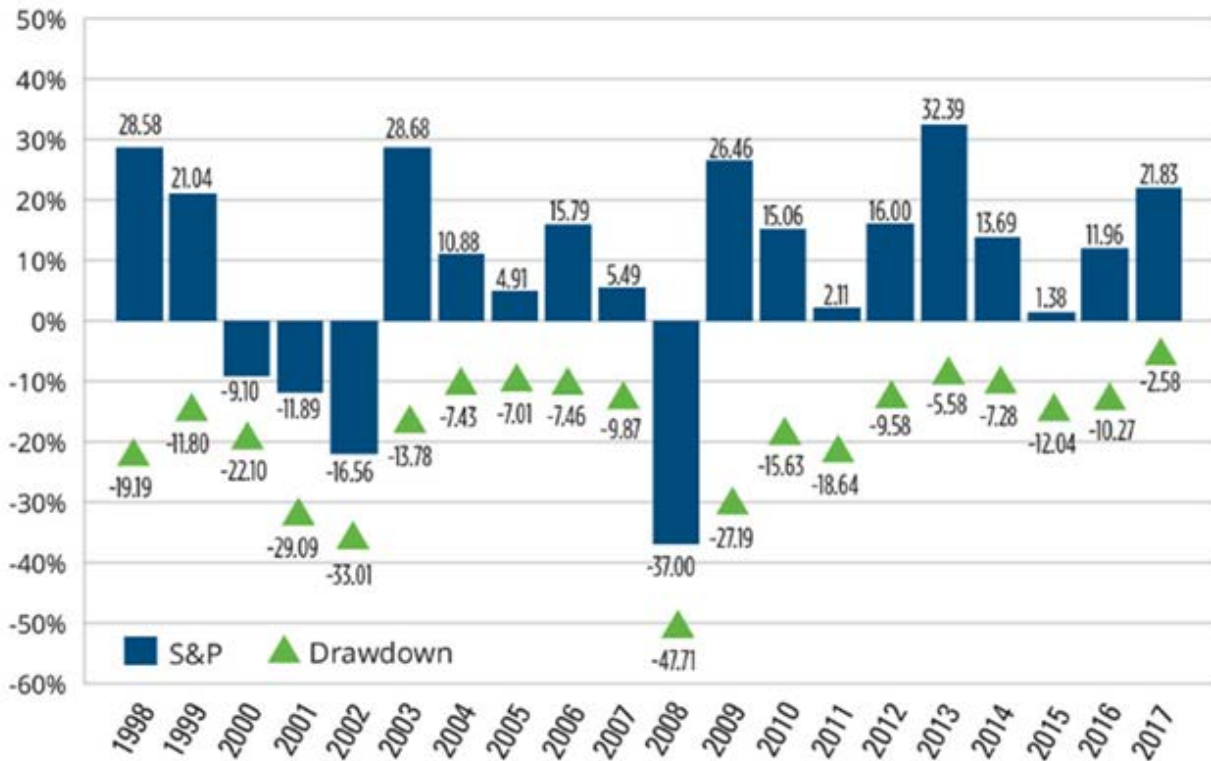
Special Update: Keeping Recent Stock Market Declines in Perspective

Large declines like the market experienced yesterday, with the Dow dropping 1,600 points and closing the trading day off 1,175 points, can be attention grabbing given that markets have risen for two years without a substantial pullback. The decline may have caught some investors off guard, with no help from sensational headlines in the financial press. Keep in mind that the large point drop was a less than 5% decline, an occurrence that has taken place numerous times throughout history and is no reason for alarm. As noted in our recent quarterly letter, economic fundamentals and corporate earnings are the strongest they've been thus far in the nine years since the recession, creating a positive backdrop for long-term investors.

To put the recent stock market pullback into perspective, the S&P 500 has historically experienced a "correction" (decline exceeding 10%) an average of once per year and entered a "bear market" (pullback of at least 20%) on average once every three years. In fact, while handsomely rewarding long-term investors with a return of 7.4% per year over the past 20 years, the S&P 500 has experienced a wide range of drawdowns in each calendar year as shown in the exhibit below. Notably, calendar year 2017 shows the smallest degree of pullback as complacent investors bid up stock prices in a period of extremely low volatility. That optimism carried over into 2018 with the S&P 500 advancing 7.5% in the first few weeks, before giving back those gains in the past week.

The key to any investment discipline is clearly defining goals and time horizon and matching an investment strategy with the highest probability of achieving success. Markets will trade on speculation, biases and emotion over the short-term, but we remain confident that over time they reflect the value of the underlying companies they represent. As with every other market pullback our experienced investment team has worked through, we intend to maintain our investment discipline and focus on capitalizing on opportunities that present themselves during turbulent periods.

Intra-Year Dips in the S&P 500 Index Happen Often



Data Source: Morningstar, 12/31/17

Past performance is not guarantee of future results. Investors cannot invest directly in an index.