HELM INVESTMENT MANAGEMENT

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MARKET SELL-OFF

If you have been near television, radio, the internet or newspaper lately, you can't help but notice the glaring headlines about the sell-off in the world financial markets. Commentators often lay the blame on economic weakness in China.

The stock market moves that we have experienced over the past three days seem to have been percolating for months. Markets have traded sideways for most of the past year, indicating that large market players were unwilling to take a side, i.e., buy the market or sell the market. While all bull markets are eventually followed by a price correction, bull markets tend to last longer than investors anticipate and this can lead to investors throwing caution to the wind and buying overpriced assets. Indeed, if you look at the very best performing stocks over the past year until just before this drop started, they were all trading at very high price-earnings and price-book values heading in to this decline. As it turns out, the same stocks that were the most frothy have seen the sharpest declines over the past few days. This is important, as it indicates a well-functioning market that sells expensive assets in favor of less expensive assets.

We should quickly address China. China is at once the markets' savior and its poison. It is the markets' savior because even if its GDP growth comes in slower than expected – say at 5% instead of the hoped-for 7% -- it remains the strongest-growing large economy in the world. It is the markets' poison because we can't trust the official data, and their internal capital markets are fraught with bizarre capital controls that prevent the free pricing of market assets. Importantly, this is the same as it has been in China for years now. So, while we need to be aware of a fast-growing economy's weakness, it would be incorrect to blame the recent sell-off squarely on China.

At the end of the day, there are ever-present risks in the market. The past few days, the villain has been China. Before that, it was the oil industry, and before that, it was Puerto Rico, and before that it was Greece. Each of these puts stress on investors and the markets. Yet the fundamentals of the U.S. economy remain strong: The U.S. economy is growing, unemployment continues to tick down, and in fact, the economy is strong enough that the Federal Reserve is looking to raise the discount rate for the first time in almost a decade. The backbone of our investment philosophy at Helm is that by maintaining a diverse mix of asset classes for our clients, we can insulate against jarring market moves like we have experienced over the past three trading days. While there are always unknowns in the market, there is absolutely no indication at this point that we are anywhere near the situation we experienced in 2008.

The moves of the past three days have been jarring and disquieting. Even so, we view the sell-off as a normal repricing and believe that despite the panic represented in the blaring headlines, the best results for clients will come from settling on each individual's most appropriate allocation of a diverse set of assets, including equities and fixed income.