HAVERFORD

QUALITY INVESTING

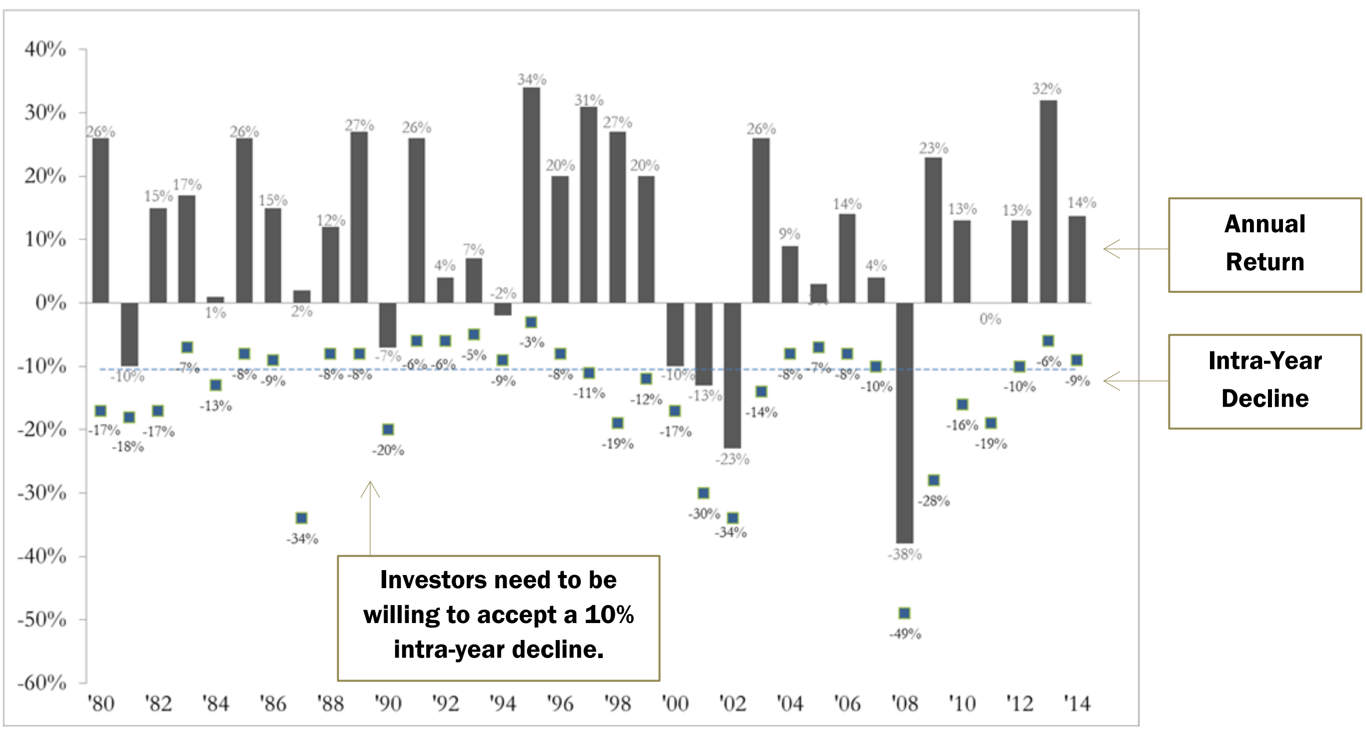
THE HAVERFORD TRUST COMPANY

Market sells off significantly for first time in 4 years

The market sell-off that started last week is a vivid reminder that stocks go both up and down. Over the past six years, we have been lucky enough to experience much more up than down. The last time the Dow declined over 10% (actually 19.4%) was August 2011. The subsequent 48-month and 54% advance has been unprecedented in its lack of volatility. Looking to the end of the last bear market, the Dow is up 151% from the bear market lows of March 2009 . With the sell-off this morning, all U.S. indexes are in correction territory.

Corrections are par for the course of a normally functioning market, and the lack of a correction in four years may be more noteworthy than the fact that we are currently experiencing one. The accompanying chart illustrates that even during positive years it is very typical to experience a correction. The current market pullback is also notable insomuch as it has been the result of "bear markets" (i.e. 20%-plus declines) in several sectors (i.e. energy) and venerable blue-chip stocks

S&P 500 Annual & Intra-year Declines[ii]



Why and what now?

The sudden sell-off may leave you asking two questions, "why?" and "how far will the markets fall?" Unfortunately, there is no single answer to the former and the latter is impossible to answer.

Worry about Fed lift-off (the first Fed funds rate hike off zero) is not the cause. And neither is the decline in oil prices. The decline in oil prices is a symptom of slower global growth and wanton oversupply of the markets by the Saudis. The preponderance of the sell-off is due to a lack of confidence in China's economy. Not only has the Chinese stock market been on a roller coaster ride, but their export-driven economy has also slowed enough to encourage an unexpected devaluation of the Yuan.

As for divining the market's direction from here, we will not try to venture a guess. Nevertheless, historical precedent is on the side of this sell-off not becoming a bear market. As we have written many times before, bear markets almost always transpire in anticipation of a U.S. recession. We do not see that occurring; employment remains strong, as do the housing and auto markets. In addition, consumers have not yet fully responded to the gasoline tax cut. In short, the data tells us this bull market is not over, but we were long overdue for a market correction.

There are many negatives on which one can build a bearish view and during sell-offs the headlines become exponentially worse. There will always appear to be more negatives than positives and plenty of reasons to avoid the market. Negatives are often all too easy to articulate, but history shows us that markets will rise over time. The costs of participating in that upward trend are volatility, the occasional pullback, correction, and bear market. We have great confidence owning high-quality companies that have successfully navigated all types of economic environments to deliver earnings and dividend growth over time.

The long-term investor's approach

With the markets falling into correction territory, business news networks and other major news outlets now have the chance to use scary graphics they archived from previous corrections. A constant drumbeat focus on "correction watch" does nothing to help investors. Having a well thought out strategy and the conviction to adhere to it is what separates good investors from the mediocre. No one knows what the coming weeks will hold. However, our confidence and certainty grows as we look out over a longer time horizon. Therefore, we should not be scared into abandoning our well-thought-out planning and portfolio design. At Haverford, we focus on asset allocation with every client and build individualized portfolios. Our focus on ensuring near-term cash needs are met means our clients are well positioned to handle volatility. We will continue to focus on what we can control—knowing that over the long-term, the uncontrollable will pass and strong companies should continue to reward investors who stayed the course.

[i] *Data as of August 21, 2015. Returns are price only.*
[ii] *Returns are based on price index only and do not include dividends. Intra-year drops refer to the largest market drops from a peak to a trough during the year. The S&P 500 index is a market capitalization weighted index of large cap stocks. It is not possible to invest directly in an index. Annual returns through 12/31/14.*

HAVERFORD

QUALITY INVESTING

THE HAVERFORD TRUST COMPANY
Three Radnor Corporate Center, Suite 450
Radnor, Pennsylvania 19087-4580
T 610-995-8700 / 888-995-5995 / F 610-995-8796
www.haverfordquality.com