TRIVETT WEALTH MANAGEMENT

"Regression to the mean is the most powerful law in financial physics"- Jason Zweig, Wall Street Journal

What to make of the current rally

A few years ago, I was playing in a golf tournament with my Father and his good friend, Carrol Dale. Carrol was a member of the 1967, 1968 & 1969 Super Bowl Championship Green Bay Packers. In my childhood, our family had spent years going to church with the Dale family and his wife was my Sunday School teacher in the 1980s. But as an adult, I had only seen Carrol on the rare occasion. Anyway, during our round I was asking him what it was like playing for the legendary Vince Lombardi. His answer has always stuck with me. He said, "Well the thing that stands out is how hard he was on us after a win and how much calmer and encouraging he was after a loss." Lombardi's counterintuitive coaching style was clearly very effective. Since hearing this I've tried to incorporate his approach into my style as a financial advisor and coach.

Well there seems to be plenty of winning in people's investment accounts of late. Although it's far from my intention to chew anyone out, I do think it's worth creating a healthy frame of reference. In doing so, this is no message of encouragement. Rather, I hope to create a grounding effect by reminding you that it won't always be as good as it has been. So, here's where we are at now:

- The S&P 500 has grown nearly 13% YTD. The 3-year average is hovering at 10%. But even more impressive is that the 5-year average is at 13.5%. Let's think about that. That means that on average the 500 largest US companies have increased their value by 13.5% each year since 2012. This means that if I had convinced you to invest $10,000 into the S&P 500 in 2012, today it would be worth nearly $18,800, not taking into account commissions and fees.
- As I write this the Dow Jones has had 35 all-time-high closes in 2017.
- Even more impressive are the foreign markets. As of this writing the MSCI EAFE NR has grown 19.99% YTD.

An interesting side note/observation I'd like to make is that this bull market is the least appreciated I've seen in my 16-year career. There seems to be a built-in element of pessimism in the face of rising equity prices. I can't explain why this is. Perhaps it's the lingering effects of the 2008 crisis. Whatever the cause, people just don't want to celebrate the growth of this market run like that of years past. This is simply my opinion based on interactions with clients. Perhaps other advisors have different opinions. But maybe this is a good thing since irrational exuberance towards any asset class has historically accompanied a bubble.

Thus far, I have attempted to provide conjecture based on economic observations, namely that the market has gone up at a pace greater than long term historical averages. Although many experts believe there is room to run, at some point the pace must slow. Gravity is a very real thing. There's no escaping it and only peril follows the man who denies its existence. Life is full of cycles, and economics are no exception.

The Other Side

Now for a little encouragement. There is still plenty cause for optimism beyond the current bull market. So here goes: According to the Bureau of Labor Statistics GDP growth, Corporate earnings, and manufacturing activity are all higher in 2017 than 2016. Plus, although the Federal Reserve has made it clear that short term rates will continue to rise it seems that they are still poised to remain relatively low.

Another tailwind is the possibility of tax cuts. It's possible (and according to some analyst, likely) that Congress will pass tax reform. While I don't know if this will be a long-term game changer, it is true that past episodes of tax cuts have resulted in some level of growth. Some believe that the tax reform is already priced in the market while others think not. Keep in mind that the administration has thus far been unsuccessful at repealing the Affordable Care Act which has brought into question Congress' ability to pass tax cuts. So as with anything pertaining to politics, who knows what will happen?

Although valuations are high, corporate balance sheets continue to look healthy. Also, regardless of one's politics, the Trump Administration is viewed as business friendly. And let's not forget that stock prices are merely the public's appraisal of a company's intrinsic value. It's good for stocks when investors feel that Washington will look favorably upon the business community.

Final Thoughts

So, are we at the market's peak? I don't know. And neither do you. And neither does anyone else (although I suspect there's no shortage of self-described prophets). But even if one did accurately predict the top, my question is, then what? Will it decline forever? If not, when do you get back in?

You see, timing the market requires being right on both sides. Not only do you have to sell at the right time, you also must buy back at the right time. . . a task nearly impossible to consistently execute. This is why I don't believe in market timing, and why I will fight anything smelling of the sort. You will always find that my opinions of investment management will not sway based on market conditions. If you've been a client of mine for any time you know this. My goal is to guide your portfolio so that we hit your personal goals (sending your child to college, retiring with dignity, etc.).

It is worth mentioning that sharp rises and falls can create rebalancing opportunities. But that is far from market timing.

So, let's all be grateful of the recent growth. Let's look at our investment statements and enjoy seeing the bigger numbers. However, be aware that reversion to the mean is very real. And the better you understand market history, the less you'll be emotionally impacted when equity prices drop.

I hope you have enjoyed this inaugural newsletter. I welcome any feedback and/or questions. My next newsletter is slated to be released in early 2018. So, I guess it's not too early to say Happy Thanksgiving and Merry Christmas!

Sincerely,

Matthew J Trivett CFP® ChFC® CLU®