Short and Long Answers on the Market, Economy, and Your Planning

A Financial Adviser's Thoughts

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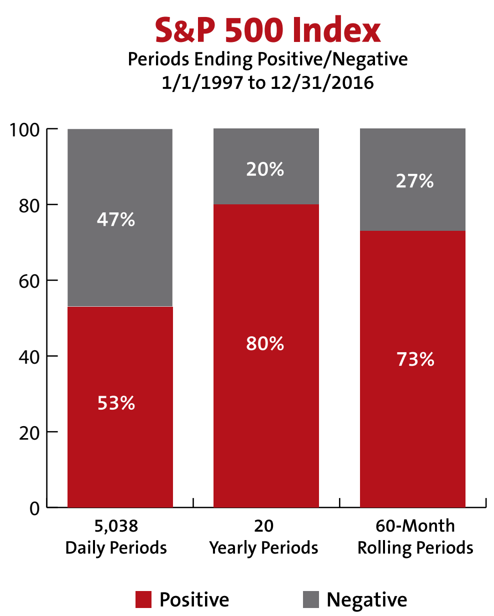
Will the stock market go down this year?
Yes.

Will the stock market go up this year?
Yes.

So, which is it?!
Both. Consider the following data. In the 20 years between January 1, 1997, and December 31, 2016, there were 5,038 trading days for the S&P 500 Index. 2,709 of those days ended positive and 2,329 ended down. During that same period, 16 of the 20 years finished positive and only four were negative. Most importantly, in my opinion, there are 181 60-month periods (five years) in that 20-year time frame of which 132 were positive, meaning 73% of the time.[1] If you judge your financial well-being on how the market does each day, you will be disappointed 117 times per year. Life is hard enough without doing that to yourself. Redirect your energies because daily market movement doesn't matter, and often times is not rational.



We are in a tricky time. We deal with a 24-hour news cycle and influencers who attempt to tie every event back to the stock market. This plays on our mind-set and not for the right reasons. Most still remember how scary 2008 was, so although we have had a long economic expansion and historically low volatility over several years, we treat it all as a "when will the shoe drop" existence. The most pessimistic believe everything positive is fleeting and everything negative is the true norm. That is a tough way to approach any part of life, let alone your financial well-being. As a professional adviser, I think it's important to help people use a different lens.

These daily, yearly, multi-year results are not solely characteristic of the S&P 500 Index. All traditional investing markets share the characteristic of being unpredictable in the short- term and formulaic in the long-term. For the rest of 2017 and into the future, you should make this part of your expectations for your planning. A qualified advisor can help work through how to do this. I know what the real question being asked is…"Where will the market finish at the end of the year?" Predicting that doesn't benefit the process; it only distracts.

Are we going to have a recession in the future?
Yes.

Are we going to have economic growth in the future?
Yes.

So, which is it?!
An Economic Cycle has four periods; growth, peak, contraction (recession), trough. Since the 1950's to present day, U.S. economic cycles have lasted about 5 ½ years. However, there is wide variation during that time from 18 months (1981-1982) to 10 years (1991 – 2001). Our current cycle has lasted since April 2009, so we are in the midst of a long cycle.[2]

Three appropriate expectations to have are:

1. Yes, we will have a recession, reach a trough, have growth, and reach a peak again.

2. The depth, breadth, and length of a slowdown are never known ahead of time. I spent time with several money managers in late April. Their varied opinions were that a recession "may" occur anywhere be tween 18 to 48 months from now. I appreciate they all used the phrase "may occur," and not "will occur."

3. Stock market values often reflect economic conditions but do not move in a direct relation to them. Stock values can rise during a recession.

Continued.

Short and Long Answers Cont.

What a person can do with these expectations is be aware, see opportunity in the cycle, and not turn inevitable downturns into unrecoverable ones.

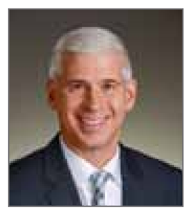
So, what should I do?
Have a plan and stick to it.

By "have a plan," do you mean just knowing how much you save and invest each month?
No. That's just recording input.

What else?
Planning begins with determining how much you need and when you need it; this is how I help people quantify clearly "How am I doing?" If one doesn't match up what they are doing with a desired result, they cannot know if they are on track.

In the "work world," you don't just record the activities of work you do. The most successful enterprises and people measure outcomes directed toward objectives. Furthermore, that act of planning is more valuable than a plan itself. Many factors change both in your control and out of your control; planning is a process to more readily adapt to change to keep moving forward. Why should your personal financial life be different?

I've noticed that clients who are successful focus on what they can control and limit their mental energy toward things they can't. In this way, investing and planning for your financial goals is not different than how one succeeds in work, family, and other life matters. My advice: put more focus on what you can control.



If you would like to discuss the subject matter in this article or any question related to your financial planning, please contact David Jeter at 412.536.8012 or djeter@alleghenyfinancial.com.

[1] *Source: Morningstar*
[2] *Source: National Bureau of Economic Research - NBER*