

INVESTMENT PERSPECTIVES

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The Bull And The Bear Tug-Of-War

As you read this Investment Perspective; remember, stock market or equity investments are just a part of a well diversified investment portfolio. But; after a long period of stock market gains, the recent stock market volatility has been front and center in media reports and in investors' minds.

The U. S. stock market, as measured by the unmanaged Standard & Poor's 500 Composite Stock Index (S&P 500), is in a constant tug-of-war between the bull and the bear.

The volatility of the S&P 500 over the first three months of 2018 shows the bear slightly winning the current tug-of-war.

It was bound to happen. Remember; 2017 was a perfect year for the S&P 500, every month produced a positive investment result - that had never happen before in the long history of the S&P 500. The bull clearly routed the bear in 2017.

So, what has happened year-to-date:¹

- ▶ In January 2018, the S&P 500 increased in value by 5.72%, including dividends,
- ▶ In February 2018, the S&P 500 declined in value by 3.69%, including dividends, and
- ▶ In March 2018, the S&P 500 declined in value by 2.54%, including dividends.

The headline news today is all about the Trade War between the United States and the rest of the world; but, most importantly between the United States and China. There is also the below the fold news; most notably about, geopolitical fears about Russia, North Korea, Iran and ISIS, inflation fears and worries about the unwinding of global Quantitative Easing, the monetary policy used by central banks around the world to stimulate economic growth when standard monetary policy had become ineffective. Add to that the fact that stocks market around the world are now considered to be fully or even over valued.

But; there is also some good news to consider, call it the page two news. Economies around the world are growing, the U.S. economy is growing and the recent U.S. tax law reform, the 2017 Tax Cuts and Jobs Act, is providing additional stimulus to the U.S. economy. But; even this good news is tempered by concerns about the negative impact the new tax law will have on the total U.S. Federal Deficit.

The mountain chart for the S&P 500 shows the recent stock market decline and also shows the twenty-year history of the S&P 500. There have been good times and there have been some bad times. That will always be the case.



Economists are often quoted as saying the most powerful force in investing is regression to the norm; that is in simple terms, periods of economic growth are followed by periods of economic contraction and periods of stock market growth are followed by periods of stock market losses. Only time will tell if today's headline news will win the tug-of-war over the page two news.

So what does this mean for investors at this time, at this stage of the economic cycle. In my opinion, it means that certain fundamental investment rules should be followed more carefully now than at some other times. As always, it is important to invest in a broadly diversified array of quality investments, to prudently manage investment risk; and if you are retired and taking retirement income distributions from your investments to prudently managed those retirement income distributions.

So, who will win the tug-of-war? Certainly, the bear may have the best of it today and even in the near term; but, the bull has had the best of it over longer periods of time. In the words of legendary investor, Sir John Templeton: "Do not be fearful or negative too often. There will, of course, be corrections, perhaps even crashes. But, over time, our studies indicate that stocks go up...and up...and up.

If you are reading this Investment Perspective and if you are one of my clients you know that I am managing your investment accounts with those fundamental investment rules clearly in mind. At this moment in time it is almost certainly a time to be more cautious than at some other times - to own a lower percentage of equity investments and a higher percentage of bond investments.

Thomas J. Dobransky, AIF, Investment Advisor Representative, LPL Financial.

¹ Source: Thompson Reuters.

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