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"Dow 25,000!"

Sound crazy? Like maybe we're buying a little too much into the recent "Trump Bump" since the election? Not really, it's just a prognostication based on easy math with conservative assumptions. The Dow*, at 19,900 in mid-December will hit 25,000 in 4 years if it averages 6% growth year. *But, here's the deal . . . as nice as that might be, we don't think you should really get all that excited about records in the first place*.

- **Are Market Indices Useful for You?** It's understandable that you want to know how you're doing. But if your portfolio is 65% in stocks, should you use a 100% stock index as your benchmark? We'd hope a moderate mix like that would get you most of the upside and less of the downside (no guarantees, of course), but it sure won't track the index. So, no, indices are not likely to be useful barometers for the health of your portfolio.
- **Setting Records Isn't So Easy:** The S&P 500 Index* has set 17 new records this year (as of 12/21/2016). Yet, after the record it set in March of 2015 it was 15 months before it hit a new high in July 2016. During the 2008-2009 Great Recession, it was down 50%, and needed 100% growth from there to reclaim its previous level. It took years. Most investors don't want that ride.
- **No Long Streaks:** When we're bombarded daily with just how many records are being set . . . or just how crummy things are, it's easy to think that tomorrow's going to be a continuation of today. But let's look at October 2015 when the S&P 500 was up a whopping 8.34%: of the 22 trading days that month, 9 (41%) were down days, and the longest streak 4 "up" days. The start to 2016 was just as bad as October 2015 was good. In the first 29 trading days, the S&P 500 was down -8.5%, yet 13 days (45%) were "up". The longest streak was 5 down days in a row.
- **The S&P 500 is Lopsided:** Considered the "go to" broad market index, the S&P 500, representing 500 companies, is terribly imbalanced. The top 5 largest companies of the 500 have a 10.7% weighting, *350 times greater* than the weighting of the bottom 5. A handful of companies can really distort an index.
- **What's Hot Today . . .:** According to BTN Research, the top 7 stocks in the S&P 500 in 2015 had gained *collectively* just 25% for 2016 (through November); and the bottom 13 stocks of 2015 (each down more than 50% in 2015), have gained a *collective* 60% through November this year.
- **Looking for Trends:** In the markets, things are seldom all good or all bad for long, and that can drive you nuts if you look at your accounts a lot. Take 2008, when the S&P was down -38% . . . did you know that 42% (5) of the months were "up?" How about 2013, with the S&P up + 30%? There were 3 down months thrown in. Down markets give you "head fakes" that make you think things are all

better, only to break your heart. And booming markets always throw a little something in there to make you think it might be time to bail out. Even 2016, with all the records, has had 4 of 11 months "down."

- **Diversifying is Borrriiing, But it Works:** Economists and investment managers will tell you that –as much as they pore over the data- they don't know the best place to invest a month or a year out. In 2000, commodities were hot (Bloomberg Commodity Index* up +31.8%); and the next year dropped -19.5%. From 2003 through 2007, emerging markets (MSCI EME) averaged over 30% per year . . . only to drop -53% in 2008, and languish the next 6 years. Large U.S. companies (S&P 500) were stinkers 2000 through 2002, middle of the pack for the next 10 years, and much better recently. But a diversified mix of the major asset classes, weighted 65% in stocks (source JP Morgan Guide to the Markets) would have given you a higher return than the S&P 500 over the last 16 years, and with 33% less volatility. People like a smooth ride, especially when they get good returns (of course, good returns are never guaranteed).

We think there's a lesson to be learned when you think about records. And that lesson is you shouldn't invest with the purpose of matching or beating the markets, or even trying to understand their gyrations. Invest with the purpose of hitting your goals, and make that the measuring stick. Have a plan, and stick to it.

We'd rather tell clients they are on track to live the life they want than to tell them "Hey, you beat the market yesterday!"

**All indices are unmanaged and investors cannot actually invest directly into an index. Unlike investments, indices do not incur management fees, charges, or expenses. Past performance does not guarantee future results.*

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