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"Don't Get Cocky"

Since the S&P 500* Index bottomed at 677 on March 8, 2009, it's up over 250%. We just finished the longest run without a 1% S&P daily drop in two decades. And we're in the 3rd longest economic expansion *since The Civil War*.

One can only conclude that we're due to get really creamed, right? Really, how long can this go on? Let's consider . . .

- **President Trump's Semi-Perfect Storm:** The President's agenda of lowering taxes puts more money in people's pockets to spend; fewer regulations can free businesses to expand and be more profitable, and spending on infrastructure can create jobs. This should all stimulate the economy.
- **Optimism is Skyrocketing:** Consumer confidence (University of Michigan surveys) is the highest it's been since 2004. CEO optimism (Business Roundtable) is the highest it's been in 7 years. And small business optimism has skyrocketed since the election (NFIB). The National Association of Home Builders' Optimism Index is at its highest point since 2005.
- **Stocks Roared After the Election:** Since Mr. Trump's November surprise, the S&P 500* is up over 10% in a little over five months (as of this writing in mid-April). The NASDAQ Index* is up almost 12%, and the DOW Index* streaked ahead 12.5%.
- **Could We Be Getting Ahead of Ourselves?** Market gains already reflect expectations for lower taxes, more business spending, multi-national companies bringing profits back from overseas, and huge infrastructure projects as if they are "done deals." What if all this takes many months to accomplish, or never gets done? The high levels of optimism are not reflected in hard economic data, showing a record gap between expectations and reality (Morgan Stanley research).
- **What Can Trip us Up:** Battles like the debt ceiling standoff of 2011, when the S&P 500 dropped 15% may be looming. Populist victories in France, Germany and/or Italy would shake the markets and the delicate EU balance. Tax reform stalling in Congress would signal that optimism is misplaced. An extension of the turbulent "drama" playing out in Washington will hurt. And geopolitical events such as North Korean militarism or slow growth in China could cause a slide.
- **Are We Due for Another 2008/2009?** That's not likely. There are so many positive factors including job growth, increasing factory orders and manufacturing, a steady housing rebound (but not overheated), low inflation, and the sluggish yet steady economic growth we've seen for almost 10 years, to name a

few. None represent a bubble such as we saw in 2000 (technology) and 2008 (housing). However, a market correction with a 10%+ drop might well be in the cards if a couple of jokers turn up (see previous bullet point).

- **Same Old, Same Old:** The last market correction was the start to 2016, and prior to that August 2015. 2011 marked the one before that. On average, they happen every three years since 1946 (Source, S & P Capital IQ), with an average drop of -14%. They are normal events, they last 5 months on average . . . and then the markets head back up again (not guaranteed, but that's the history). Pullbacks of 5-10% happen annually on average.
- **Time and Patience:** While older investors can be hurt badly by a protracted bear market (a drop of 20% or more), "bears" really aren't something to obsess about for the rest of us. It's gut wrenching when things plummet 20%, but remember this: since 1948, there have been 13 bear markets lasting an average of 14 months with an average cumulative drop of -25%; and there have been 14 *bull markets lasting an average of 45 months with an average cumulative increase of 121%* (FactSet, Putnam Investments).
- **What to Do:** Economists and investment strategists are very good at dissecting the past, but are woeful at forecasting the future. How many times have you heard "we're in for another recession" or "a correction is around the corner?" Heck, we're talking about it in this Commentary. But no one knows when to get out and when to get back in . . . and those who try usually cost themselves money. Stay diversified (although this is not a guarantee of a better result), and hang in. Bad things eventually pass.

The markets will dive at some point . . . *It could be next week or might be next year, but it'll happen and it won't feel good at all. Just remember "more money is made at the end of an economic expansion than is lost in the next big drawdown" (John Bilton, JP Morgan). Bailing early can cost you.*

We are living in fractious times. The best you can do is keep a cool head . . . stay the course, and let us help.

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