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"The Markets are Collapsing: Time to Cash Out?"

It's been an ugly start to the year for the stock market. No one's making money, and almost everyone's worried about things they don't really understand. But one thing is clear . . . it feels terrible. We need to share a few of the realities of the current milieu, because wondering if this is the next "big one" may be keeping you up at night.

- **Are We in for a Bear Market?** Perhaps. At this writing we're 15% off the highs of 2015, and a "bear market" is a 20% drop. But, like last time, if we're 3/4 of the way to the bottom - or already there- it's no time to bail out. Last August and September were miserable too, only to be followed by the best month in 4 years.
- **How About a Recession?** While we can't rule it out, it's not likely. Recessions are normally associated with any or all of the following: huge spikes in commodity prices (due to overheated economies), the Federal Reserve aggressively raising rates, and extremely high stock valuations. Commodity prices have gone down more than the stock market, so that's certainly not a bubble. The Fed is raising rates very, very cautiously, and the valuations of U.S. stocks are perhaps a little low right now. None of this points to a recession being imminent.
- **Low Oil Hurts:** Energy-related stocks have been routed for over a year, with the price of oil declining 45% in that time. This has hurt the stock market overall, and has caused thousands of layoffs, albeit oil and gas activities account for less than ½ of 1% of the labor force (Department of Labor, JP Morgan), and U.S. energy companies account for less than 6% of the S&P 500 Index* (Standard and Poor's).
- **Low Oil Helps:** Cheap oil forces energy companies in exploration, production, and transportation to become more efficient, and they can be more profitable when oil prices inch back higher. Manufacturers using petroleum-based products find production and operation costs (such as airlines) have decreased. Consumers, who've seen the cost to fill their cars cut in half, are spending this money on goods and services, helping grow the overall economy.
- **China, China, China:** The economy of China is slowing. For decades it grew over 9% annually (*not* sustainable decade after decade), and now it's just under 7%. The Chinese bought lots of commodities from other countries to build roads, airports, dams, and seaports . . . and that's slowed, hurting many countries they bought so much from. But, just 7% of U.S. exports go to China (J.P. Morgan, FactSet), and that accounts for less than 1% of our GDP. So even if trade with China was off 50% (which it will not be), it would barely nudge our U.S. growth.

- **Three Cheers for Consumers:** 2/3 of the U.S. economy is comprised of household consumption (World Bank). When we buy cars, houses, and groceries, we are moving the U.S. economy ahead. In China, however, household spending is only 34% of their economy (Demand Institute), and the Chinese government wants to increase that. This would reduce the reliance on government spending to drive the economy. Developed economies worldwide are driven by consumption of goods and services. This type of growth can be sustained over long periods; people buy things to support a better lifestyle, creating more jobs and wage growth, and ultimately more spending. The growth of the Chinese consumer will be good for Apple, Pepsi, Tiffany's, you name it . . . and so will the ultimate growth of consumerism in Africa (already taking hold), South America, and Latin America.
- **You'll be OK in the Long Run:** You're tired of hearing it and we're tired of saying it. But historically speaking, it's true. Since 1926, the S&P 500 Index* has been down just 25 times, and up 65 times (Morningstar). *It was up over 10% 52 years out of 90*. Those are good odds. Since 1950, a 50/50 blended index of stocks and bonds would have had positive returns for any 10 or 20 year rolling period (Ibbotson, Barclay's Capital)*, and the average return for the 20 year rolling periods was 8.8% (no guarantees going forward, of course). Truly, don't most of us have another 10+ years?
- **The Government Is Sending Us Down the Tubes:** Hating the government is not an investment strategy. However we feel about Congress and the President, doesn't stop us from grabbing a Starbucks on the way to work, or trading in our car for a newer model (car/truck sales hit an all-time high in 2015). Who's running the show in Washington, and how its run, may be terribly aggravating but is does not have a high correlation with how the stock market does.

We know periods like the last few months are horrific, especially for people in retirement, not earning an income. But what can you do? *Guess* where the economy is going to go? *Gamble* on whether the stock market is going to have a prolonged slide or bounce back? To do so would be folly, and irresponsible. When the odds are overwhelmingly in your favor (see above) you stay the course.

Downturns like this, even though normal, are nasty . . . to our portfolios and our psyche. We start to questions things, we wonder if we'll be ok, and if we need to do something drastic. The best thing is to talk to us, let us help assess how you're doing. Let us help you regain control.

*The blended index of 50/50 stocks and bonds is composed of the S&P 500 and Barclays US Aggregate. 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. **S&P 500** tracks the performance of 500 widely held, large-capitalization US stocks. **Barclays Capital US Aggregate** covers the dollar-denominated investment-grade fixed-rate bond market.

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