PREMIER
WEALTH MANAGEMENT, LLC
Caring for you and your future

Commentary

CRAIG PULLIAM CFP®, AIF®, CLU®, REBC | MICHAEL R. COMSTOCK CFP®, AIF®
WWW.PREMIERCARES.NET

"When the Party Ends"

What party? The economic expansion that we've been enjoying for the last 8 years. Even though it's the second longest in our history, investors have been as excited about it as they are their neighbor's holiday open house with the dubious eggnog and the pecan log.

- **Going on 10 Years of a Goldilocks Economy:** Since the recession and bear market of 2008-2009, we've added millions of jobs; housing has rebounded in most areas; the stock market's up 250%; and economic growth has averaged a little over 2% annually. The economy has been called "a healthy tortoise" (David Kelley, Chief Global Strategist for JP Morgan).
- **But a Recession is Inevitable:** An economic slowdown and decline in productivity will happen at some point, and will be a hot news topic. From 1929 through 1982, recessions occurred about every 5 years. Since then, it's been about every 10 years. Just because we think we're "due" doesn't mean a recession is just around the corner, but at some point . . .
- **War and Pestilence:** Remember the Ebola virus scare? The lethal disease was expected to kill millions (it did not). Markets turned jittery and then recovered quickly. For the 21 U.S. military conflicts since 1914 the average initial shock to the DOW* was -4%. However, the average rebound was +9.8% within 6 months (FactSet 8/31/2017). Market drops during these times were short lived. Which is not to say that an escalated conflict in Asia, as an example, wouldn't be different, but rather that there is little correlation between military campaigns and market performance.
- **Markets *are* Pricey:** The Shiller P/E (Price of Stocks/Earnings) compares the S&P 500* PE ratio of the last 10 years with the current PE. Using this metric, the S&P 500 seems expensive and ought to drop closer to its average. However, the Shiller PE has been telling us this for years, and the market's been going up. Like a pendulum, PE ratios will spend a fair amount of time above their average before swinging below it. Right now we are definitely above PE norms, and U.S. markets are not cheap. But fixed income is even pricier, given the yields.
- **Why Haven't we had a Correction Yet?** Because the economy is fundamentally strong. There has been no catalyst to drive us off the cliff. No inflation, no asset bubbles, no fiscal crisis. However, in a survey by Merrill Lynch of its global fund managers, they feel a Congressional debt ceiling impasse and further challenges from North Korea represent newly heightened risks.

- **How Long can this Party Last?** It's hard to pinpoint, but just because this has been a long party (if languorous at times) doesn't mean it has to end soon. Low interest rates mean investors still can't make much in fixed income as an alternative for growth; the Bloomberg Comfort Index (how people feel about the economy, their own finances, and whether it's a good time to spend) is the highest since 2001; and manufacturing growth has been solid. If consumer spending, which has been increasing slowly, catches up with all the "good feelings" then things might continue for a while (a year or two?).
- **When Things *do* Turn Bleak:** Whether its next year or in three years (or beyond), if markets slide 20-25% it'll hurt and surprise a lot of people. Remember though, since 1900 recessions have averaged 15 months in duration while economic expansions averaged 46 months (National Bureau of Economic Research). Bear markets have averaged 14 months and bull markets 43 months (Putnam Investments). In other words, good times have lasted three times longer than bad times.
- **What Really Hurts:** Younger people can ride the waves and systematically buy into a down market. They're fine. But retirees on a fixed income can get hammered during a prolonged market downturn. Let's say you've got $1,000,000 and take out $4,000/month. That's probably sustainable long term. But if your account slides -20% over two years . . . you're taking $48,000/year from a nest egg that's now around $725,000. This 6.7% withdrawal rate may *not* be sustainable. When this happens, it is often time to cut back spending temporarily and put off that big trip or home improvement.

Whenever the economy backtracks and/or the markets drop precipitously many investors forget this happens regularly, and that it's always been temporary. Most often, the best thing to do is wait it out.

How do we deal with knowing the party will end . . . but not knowing when? We rebalance portfolios regularly so they don't get out of a comfort zone; we caution against overspending; we advise clients to have a safety net of cash; and we stay on the path, the plan. By doing these things, when the party is over, you're unlikely to have much of a hangover.

**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.*

Craig Pulliam and Michael Comstock are CERTIFIED FINANCIAL PLANNER™ professionals practicing at 112 Westwood Place, Suite 310, Brentwood, TN. They own Premier Wealth Management, LLC. Advisory services offered through Commonwealth Financial Network, a Registered Investment Adviser.
We can be reached at 615-777-2125.
Back issues of our Commentary may be found at www.premiercares.net