OFG FINANCIAL FOCUS

First Quarter, 2018

Fear Of "Heights"

THE SURGE IN THE STANDARD & POOR'S 500-Stock Index in the first days of this new year made the current nine-year advance the greatest bull-market run by the Index in the post-WWII era. Its near quadrupling since the panic low of March 2009 (ignoring dividends) has surpassed even the record of the wild, tech-fueled 1990's.

And that seems to be making an awful lot of people very uncomfortable. More and more, on every side, one hears cries of distress: this can't go on; the end must be near; what goes up must come down.

Equities have, by many important measures, been in net liquidation by the individual investor throughout the whole nine-year run. Stock ownership is down in every major age group (with the startling exception of us old folks, who have actually seen this movie before). The Investment Company Institute reports that more than $950 billion has moved into bond mutual and exchange-traded funds *just since 2012.*

Speaking only for myself, I've never seen anything quite like this. I came into Wall Street a beardless boy of 24 in 1967—very near the top of the stock market mania that capped off the great postwar bull market. After the economic travails of the Somber Seventies, I watched the serial bull markets of the '80's and '90's end in the most extreme speculative mania in our (and maybe anybody's) history. Doctors and dentists quit their jobs to become day traders.

Then came what I think of as the Bookend Bear Markets—the savage implosion of the tech bubble in 2000-02 and then The Great Panic of 2007-09. At which point this third epic bull market of my career (and investing lifetime) got under way.

Up until now, that's been the usual pattern. Human nature being what it is, the more markets have advanced in the past, the less worried—and more aggressive—the investing public has tended to become. Fear has gradually fallen away, to be replaced by confidence, then by great enthusiasm, and finally by speculative frenzy.

Clearly, this one isn't at all like that, at least not yet. Even as the economic backdrop supporting the advance of equity values has tended to strengthen—global growth accelerating, U.S. unemployment falling to historic lows—investor sentiment seems a thing of deepening gloom and foreboding.

What is the reader of this litte essay meant to conclude from all this regarding his/her own investment policy? Why, nothing, of course. You and your financial advisor are no doubt acting on an established plan, which in my experience is the strategy that affords the best chance of long-term financial and investment success.

Reacting episodically to the markets—or to one's own perception of the markets, which is perhaps even more dangerous—leads (also in my experience) to failure. Conclusion: if your goals haven't changed, don't change your plan in response to some real or imagined economic/market event or condition.

Rather, I'm making here a small but not unimportant point. To wit: the equity market will always be subject to corrections. The average annual drawdown in the Index since 1980 has, according to J.P Morgan Asset Management's very useful *Guide to the Markets*, been upwards of 14%. As recently as 2011, amid a blast of economic and political headwinds, it declined 19.4% in five months.

And yet this (now) greatest of bull markets rolled on.

But the really serious market tops—the ones that are sometimes not surmounted for years—seem historically to have evenuated when the huge public consensus was that the market could only keep going up, and that the only risk was that somebody somewhere might be making more money than you were.

That is to say that the great waves of equity values seem to have been driven—at least until now—by similarly great waves in ***sentiment.*** If, as I believe, this rough relationship is continuing, I for one can't work up a lot of existential terror about the market just yet.

If my doctor and/or dentist quit to daytrade stocks, I will advise you of that in a future bulletin, and we can revisit this issue at that point. Until then—as would, I expect, your financial advisor—I'd counsel staying the course and continuing to work your plan.

In all human affairs there are efforts, and there are results, and the strength of the effort is the measure of the result.

- James Allen

A banker and a friend were out sailing in the friend's boat when a sudden swell flipped the banker overboard. The friend grabbled a life preserver and got ready to throw it to the banker if he needed it.

"Can you float alone?" cried the friend.

"Yes," said the banker, "but this is a heck of a time to talk business!"

Pathway Financial Solutions

120 Santa Fe Ave

Salina, KS 67401

Phone (785) 820-8161 **Fax** (785) 820-8123

Pathway@ofgfinancial.com

www.pathway-financial.com