StraightTalk
PROVIDED BY STRAIGHTLINE FINANCIAL OF RAYMOND JAMES VOLUME 2 APRIL 2017

ALFRED L. STRATFORD, III
Chartered Retirement Planning Counselor (CRPC®)
Senior Vice President, Investments

The Correction Zone

As regular readers of this newsletter will remember, I frequently point out that the average intra-year decline in the U.S. stock market since 1950 has been about 14%. The longer we go without one of these garden variety pullbacks, the larger they can become. These routine "corrections" are the price we pay as investors in the great companies of America and the world. Our reward is the recoveries that have come in the past, with the new highs attained afterward.

It is my opinion that we are sailing into the correction zone with each passing month. I don't think this means we should be taking action in the portfolio - I do not expect a recession, or a decline in earnings - in fact, I am expecting exactly the opposite. But sometimes, prices just need to go down for a while, allowing capital to rotate in and out of the markets, and build a base for the next sustained upward move. None of us know when the catalyst will come for this market to pull back, and I may be wrong about it happening this year, but it has been a truly impressive run since Election Day, and an even more impressive run since the last correction in early 2016.

You may have forgotten that correction in the first six weeks of last year because the media never really follows up on the *catastrophe du jour* when it turns out to not be so catastrophic. After shrieking about "the worst first six weeks in stock market history" from the start of last year through mid February, and creating genuine concern for many of you, their predictions of the end of life as we know it failed, once again, to come true. Not only did the market stop going down in late February, it had the temerity to rise almost 30% from then until the beginning of March just one year later. All of the do-it-yourselfers who listened to the media's groupthink on how bad the year began (and would therefore continue to be) missed a really nice move to the upside. That correction, by the way, was 11% from peak to trough, and the pullback before that, which may be harder for you to recall, was a 13% decline over a two month period in the late summer of 2015.

There have also been some smaller, sharper pullbacks with equally sharp recoveries since "the worst first six weeks in stock market history" – the most memorable of which was triggered by the United Kingdom's vote to exit the European Union. U.S. stocks dropped 6% in about a week, and recovered before you received my letter advising you to ignore this apocalyptic noise. After the wall-to-wall media coverage of how economically devastating this "Brexit" would be for Europe (and by extension, the U.S.) the market shrugged it off, recovered those few percentage points, and added considerably more throughout the fall.

So, the question is not whether the market will have a routine and predictable pullback at some point soon – it will. Neither is the question whether or not the mainstream news media will cover it as if this has never happened before – they will. The real question is what that coverage will be, because news today must be packaged into easily digested doses for us consumers, and the question regarding the market and any decline is always, "what caused it?"

Never mind that the simple answer for this is that for a short time the sellers outnumbered the buyers…..the media must find a more attention grabbing headline! My prediction is that news rooms across America will reach back in their files and pull out a recently forgotten boogeyman – *inflation*. The economy is growing, the employment picture has improved, earnings are predicted to have grown double digits in the first quarter, and the Federal Reserve has finally, at long last, admitted that it is time to begin a series of short-term interest rates hikes. To the optimist, this means the patient is no longer sick, and does not need the medicine of easy

monetary policy. However, to the catastrophist, this means the house is on fire with inflation, the Fed is behind with the fire hose, and stocks will tumble.

Before expending some ink on why this media news story is a non-story, it might be helpful to recall the many knocks this market has endured on the climb from the depths of The Great Recession. Many of you know that I regard the bounce from the stock market's bottom in March of 2009 to the middle of 2012 as a pure recovery, therefore this secular bull market began in earnest in early 2012. However, since there has not been a price correction of 20% or more along the way, we have not actually had a "bear market" year since 2008…but the headlines during those years might make you think otherwise!

In early March, USA Today ran an article about the eight year bull having nine lives. In the article was a chronological listing of news stories you will nod your head and remember, but that were considerably more dire and stressful at the time. The article details them thus, *"The first scare came a month into the historic run, when U.S. automaker Chrysler filed for bankruptcy in April 2009. That opened the fear floodgates. Then the Greek debt crisis emerged in summer 2010. Twin shocks struck in 2011, the first being a 9.0 earthquake in Japan and the resulting scare due to the damaged Fukushima Daiichi nuclear power plant, which was followed by a rating agency's downgrade of the USA's AAA credit rating. Facebook's confidence-killing, botched IPO followed in 2012, along with the destruction and estimated $71.4 billion in damage caused by Superstorm Sandy. In 2013, stocks endured the terror attack at the Boston Marathon, a "tantrum" by investors after the Federal Reserve said it would start tapering its bond-buying stimulus program and a 16-day shutdown of the U.S. government. The Ebola crisis followed in 2014, as did tensions surrounding Russia's land grab of Crimea. In 2015, stocks overcame Greece's near exit from the European Union, a summer stock market crash in China, a terror attack in Paris, and the Fed's first interest rate hike in nearly a decade. Last year, the indestructible bull market recovered from fears of a Chinese economic meltdown, the U.S. stock market's worst start to a year ever, oil prices plunging to a 13-year low, attacks by terrorists in Brussels and Orlando, as well as bombings in New York and New Jersey. The United Kingdom's Brexit vote couldn't kill off the bull, nor could Donald Trump's presidential election upset, nor a second Fed rate hike."*

Wow – that is quite a list of calamities, most, if not all of which, were trumpeted loudly on television and in print as being devastating to your portfolio. You would think that the fact that the news media was proven wrong on each and every dire prediction from those stories, and the fact that the stock market has tripled since the lows in March of 2009 would make them gun-shy about running with the next crisis….but apparently not! I keep my office television tuned to Bloomberg (which I find the least sensational of all of the financial news outlets) and still the screen is filled with orange and red blinking alerts about some breaking bad news story virtually every day.

Make no mistake about it, the market will pull back at some point in the near future, and the media will convulse on that routine event as if it's financial Armageddon. Using inflation as the reason for the end of life as we know should not surprise any of you, nor should it be any more of a call to action than the list of headlines from the USA Today article you just read. The secret weapon to getting through these routine stock market corrections is to stay focused on the facts, and ignore the hyperbole.

The facts are that, according to Thomson Reuters, corporate profits declined 31% from the end of 2006 to the end of 2009. Since then, profits are up more than 95% and are still rising. The consensus expectation for the quarter that just ended is earnings growth of 10.3%. Research from RBC Capital Markets shows that seven of the last eight bull markets ended as the result of economic contractions. In other words, if the economy stalls, and earnings decline, this bull ride may be over. However, a news story attributing the routine normal intra-year decline to the excuse du jour is something altogether different. Earnings are expected to improve throughout this year even without policy improvements from Washington. With good policy, there is even more upside. The correction zone may be approaching, but I believe that this market is going higher….

StraightLine FINANCIAL OF RAYMOND JAMES®

804.225.1143 | straightlinefinancial.com | 951 E. Byrd Street, Suite 930 | Richmond, VA 23219

StraightTalk is published by Al Stratford exclusively for his clients. The opinions expressed in this newsletter are those of the author and are not necessarily those of Raymond James & Associates, Inc. Information has been obtained from sources considered reliable, but its accuracy and completeness are not guaranteed. Past performance is no guarantee of future success. All information provided is of a general nature and is not intended to address the circumstances of any particular individual or entity. No one should act upon such information without professional advice from their tax advisor. Investing always involves risk and you may incur a profit or loss. No Investment strategy can guarantee success. © 2016 Raymond James & Associates, Inc., member New York Stock Exchange/SIPC. Past performance may not be indicative of future results. Investing In stocks involves risk, including the possibility of losing one's entire investment. The S&P 500 is an unmanaged index of 500 widely held stocks. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.