StraightTalk

PROVIDED BY STRAIGHTLINE FINANCIAL OF RAYMOND JAMES VOLUME 6 DECEMBER 2019

ALFRED L. STRATFORD, III

Chartered Retirement Planning Counselor (CRPC®)

Senior Vice President, Investments

2019 – A Great Year, If You Ignored News Headlines

"If the question is when markets will recover, a first-pass answer is never. So we are very probably looking at a global recession, with no end in sight." Nobel Prize winning economist Paul Krugman, just hours after the 2016 election.

"Investors could be caught in a "rolling bear market" for the next several years. The risk is that the profits recession turns into corporate behavioral change, which then leads to further economic slowdown. I have a 2,750 year-end target for the S&P." Mike Wilson, chief U.S. equity strategist for Morgan Stanley, early this year.

Two smart, educated financial experts, both with two predictions that turned out to be quite wrong. For those that don't have their charts handy, the Dow closed at 18,332 on Election Night 2016, and as of this writing, stands at 27,669. Had you acted on Mr. Krugman's prediction and gone to the sidelines to avoid his predicted financial losses, you would have missed a gain of 51%. Ouch.

As for Mr. Wilson's call on the profits recession dropping the S&P 500 to 2,750 - it currently stands at 3,110, or 13% higher than his prediction. Heeding his negative prognostication by jumping out of the market would have cost your portfolio a double digit return in less than a year.

Herein lies the inherent danger of relying on "news" and predictions to set your investment policy. As I have written in previous newsletters, most great investors succeed by acting on a plan, and most unsuccessful investors fail by reacting to news. Never has that been more front and center in the lives of the American investor than in today's hyper-partisan, sound bite driven, short attention span, echo chamber news cycle.

The question thus becomes, if we are to not act on today's news of imminent stock market, political, or economic disaster, what should we use to guide investment decisions? One answer is to use your own eyes and ears in your daily life. Do you see stalled construction projects, or significant ongoing development? Do you see numerous decade old vehicles when driving, or shiny new cars and SUVs at every stoplight? What about restaurants – lines to get in, or lots of empty chairs? Particularly this time of year, what do mall and store parking lots look like – full or half empty? And, as it relates to the expanding online shopping trend, do you see an increase in UPS, FedEx, and Amazon delivery vehicles out and about?

The news can spin a lot of opinion on many topics, but the average American decides their own fate when it comes to spending. And since we are an economy based on consumer spending – this data is a much more important input than the newest poll on the latest Washington, D.C. circus.

To wit, on what used to be the biggest shopping day of the year, USA Today reports that on this year's Black Friday, consumers spent a record $7.2 billion in online shopping alone. The results for those that actually shopped in stores that day were also up 4.2% over last year. And, in what could only be described as unimaginable to the creators of our Thanksgiving traditions, Americans spent $4.2 billion in online shopping *on Thanksgiving Day.* And the avalanche of buying continued throughout the weekend, with $3.6 billion in sales on Small Business Saturday, and an all-time record spending number of $9.4 billion on Cyber Monday. To me, these numbers do not reflect an economy on the verge of collapse, or a rolling bear market, or a global recession with no end in sight – no matter how badly the media wants it to be true. People, and investors, are slowly waking up

to the idea that it is okay to feel good about our lives, and that we do not need to live in fear waiting for some additional economic shoe to drop. And this realization is very important in gauging where we are in this economic and investment cycle.

Another guide to decision making is investor sentiment (what Keynes referred in 1931 as "animal spirits") which plays a big role in investment cycles. It is extremely hard for markets to hit a peak and then sell off substantially for a meaningful period of time if investors are truly pessimistic. It takes vast unbridled enthusiasm for investing (what Greenspan referred to in 1996 as "irrational exuberance") for markets to get far enough ahead of themselves for a speculative bubble to form. And just as tracking where consumers spend provides a window into the confidence of the consumer, one of the very best measures of investor sentiment is tracking where investors are putting their dollars.

The Investment Company Institute tracks money flows into every conceivable category each week. A quick and easy way to see how much investors are being swayed by scary news headlines is to track the weekly flows into both stock funds/ETFs and bond funds/ETFs. Amazingly, the ICI report shows that with few exceptions, flows into domestic stocks turned negative and stayed that way after 2008. And, you guessed it, flows into all manner of bond investments turned positive and mostly stayed that way over the same time period. There are two important conclusions that can be drawn from this data. The first is that people must have been (and stayed) really, really scared of the stock market to accept historically paltry interest rates from bonds for a full decade, while watching the stock market triple. The second conclusion one must draw is that if the stock market tripled while, on average, more people were selling stocks than buying them – there is no telling how high it could go if people suddenly embrace the idea of stocks, and those flows turn positive once again.

With unemployment data showing that anyone in America who wants a job can have one, with continued data suggesting that we are a long way from seeing the insidious effects of inflation, with the balance sheets of corporate America holding mountains of cash, and with consumers confident enough to spend their hard earned money with those corporations, maybe investor sentiment will finally improve in the next year as this bull market rolls on. Or maybe, the permanently gloomy news headlines will keep sentiment pessimistic, allowing this market to reach heights unimaginable to most of us.

Speaking of which, regarding the sheer volume of fatalistic news about our current President, the opening lines of Charles Dickens' classic, *A Tale of Two Cities* come to mind. *"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness..."*

That marvelous opening quote could easily be applied to every President in recent memory. President Clinton was referred to more than once as a philandering liar who disgraced the office, and yet the economy grew from $7 trillion to $10 trillion during his presidency. President Bush (43) was frequently called a simpleton who stumbled the country into wars in Iraq and Afghanistan, and yet the economy grew from $10 to $14 trillion on his watch. President Obama was labelled an unqualified anti-business former community organizer, and still the economy grew from $14 to $18 trillion during his two terms. And President Trump, with record setting negative news stories, has seen our economy grow from $18 to over $21 trillion in just three years in office.

Along the way there were tax cuts, tax hikes, recessions, 9/11, the Global Financial Crisis, and a blinking red news alert across the TV screen almost every day. More importantly, though – the Dow started the year Clinton was inaugurated at 3,309. Four Presidents and 25 years of bad news later, the Dow is 25,000 points higher, and all an investor had to do to enjoy that 8-fold return was *to ignore the news headlines every day for the last 25 years…*

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. 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. Currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising. Diversification and asset allocation do not ensure a profit or protect against a loss. The process of rebalancing may carry tax consequences. 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. The S&P 500 is an unmanaged index of 500 widely held stocks. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stocks of companies maintained and reviewed by the editors of The Wall Street Journal. *One cannot directly invest in an index*. © 2016 Raymond James & Associates, Inc., Member New York Stock Exchange/SIPC.

StraightLine
FINANCIAL OF
RAYMOND JAMES®