RZH INSIGHTS
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Executive Summary:

- The global stock market is up 25% over the last year;
- It is prudent to take some profits, rebalance, fund long-term goals and lower risk;
- This bull market may last longer than many expect but...
- A correction is likely to occur soon, however...
- There is no need to radically alter your plan.

Dear clients and friends of RZH,

The holidays are upon us and our thoughts often turn towards that for which we are grateful. While family, health and good fortune are certainly on the top of my list, I must not forget to mention the performance of the stock market this year as something to be grateful for. I know this may sound uncouth, but heck - given my role at the firm, I cannot fail to acknowledge the investment gods - years like this don't come around often! I mean, my goodness, I don't think there is a person on the planet that predicted the global stock market would be up 25% in the year after TRUMP was elected.

Anyhow, this is not a letter about asset allocation, staying the course or why you shouldn't chase returns and market time, I've preached that over and over. What I'd like to do is express our thoughts on this market and how, as strategists, we are thinking about your portfolio and financial plan.

As I write this letter the S+P 500 has just crossed 2,650 - an all-time high. Better yet, this period has finally been deemed an "ultimate Goldilocks" environment for stocks. (For an explanation of why, please see note #1.)

As delighted as I am by all of this, our golden rule is to "never take growth for granted." In the second half of 2017, we have been diligently rebalancing portfolios, taking profits, reestablishing target risk profiles and addressing our client's long-term goals such as paying down debt, funding charitable pledges, gifting to children, funding 529 college savings plans, building their nest egg and taking that dream vacation. As planners, helping our clients take advantage of rare years like this to achieve their dreams brings us tremendous joy.

Moving forward, I think this bull market has a good chance of lasting longer than many expect. However, all bull markets take a break and reset. And this is the really important part of my message; a correction may occur sooner rather than later. It's inevitable as history has proven time and time again. (For a history of stock market corrections, please see note #2.)

Over the last few years market volatility has actually been historically quite low, although the financial media wouldn't lead you to know that. For many reasons this will likely change, corrections will occur more frequently, and we need to be ready for them. And by "ready" I mean not surprised by their occurrence but rather prepared to navigate the volatility. Please know that corrections do not signal the end of the market's inevitable uptrend, nor does it create a reason to change course. So long as you've planned for this eventuality, by having a well-thought-out plan in place, market fluctuations become much less relevant to your financial security.

The conversation I've attempted to start here today - and that I look forward to continuing with you individually - is really about dealing with the inevitable anxiety of watching your account values fluctuate (decline) and having the will to stick to our plan even though the media and all the "experts" will be advising you otherwise. Human nature wants us to avoid risk and therefore there is always going to be, in all of us, that fear impulse. Because, while it's perfectly appropriate to be fearful during periods of volatility, it has historically been a mistake to act on the fear by abandoning a well-thought-out plan.

I look forward to continuing this conversation personally with all of you as we invest together in this exciting yet unpredictable world. I wish you and your families a most wonderful holiday and much joy in the New Year.

Carl

Note #1 - Why the market is at an all-time high:

Stocks are at an all-time high very simply because their earnings are at an all-time high. The logic is that the more a company earns the more it should be worth. Collectively, the companies which comprise the S+P 500 have just reported record-high earnings for the fourth quarter in a row. Therefore, if companies are making more than ever - they should be worth more than ever. Better yet, this period has finally been deemed an "ultimate Goldilocks" environment for stocks as earnings are strong, there is a coordinated global recovery in place not seen in 20 years, inflation is low, interest rates are low, liquidity is ample, unemployment is low, financial market stress is low and there is the hope of positive corporate tax reform. And, from a contrarian perspective, this bull market is still widely unloved by the media and industry pundits. To quote legendary investor John Templeton: "Bull markets are born on pessimism, grown on skepticism, mature on optimism and die on euphoria." We still have yet to experience any sense of euphoria when it comes to this bull market.

Note #2 - Market corrections and bear markets:

In 1946, just after WWII when many believe the modern-day stock market began, the S+P 500 stood at 18, recently it surpassed 2,650. Not including dividends, the index is up 147 times. In these 72 years there have been 55 declines of -10% or more (almost every year) and the average intra-year decline during these 72 years was about -14%. There were fourteen declines of at least -20% or more (bear markets), or one about every five years, and the average of those is actually closer to -30%. Even with all of this nail-biting volatility the average annual return for the S+P 500 index has been about 10% per year. The issue today is that we've only seen one bear market in the last 15 years and only about five corrections of -10% or more. Now, I cannot stress enough that as long and as potentially credible as these 72 years may have been, they don't prove anything. Because when it comes to the future, and especially to the future of equites, nothing in the past proves anything about the future. If we're not focused on the long-term record, and on our own long-term goals, we can fall victim to the psychology of "THIS TIME IT'S DIFFERENT," and that's often going to lead to a panicky sell decision - and to a lot of long-term regret.