KFS

KUMMER FINANCIAL STRATEGIES, LLC

Helping You Create Financial Independence

HOW TO PLAN FOR 2ND HALF OF 2018

(as printed in the Highlands Ranch Herald on June 21, 2018)

Finance by Patricia Kummer CFP®

No amount of bad news would upset the market in 2017. Even January of 2018 appeared to be on a track to the moon, and then the long-awaited correction hits. This took the equities market down a few notches in February and March, only to remain range bound the last few months.

The concern is we won't break out of this narrow trading channel investors now live in, back and forth over the same territory. However, we did see the predictions outlined in December at the economic workshop mostly come to fruition. Now it is time to review and think about the second half of the year, and what to expect.

Six months ago, we thought the market was vulnerable to a near-term correction, that tax reform would pass and that yields would creep higher. Also, we were on the lookout for corporate earnings to fuel a higher market. All of these things did come to pass. So, what caused renewed volatility even though we are in a similar economic backdrop?

We would need to go all the way back to 1960 to see the low volatility we had during 2017.[1] It appears that volatility is normalizing. This means the normal gyrations of a typical market are returning, poised to take direction from every news tidbit. This sensitivity is actually common in a late-stage recovery. If you figure our recovery from the Great Recession began back in 2009, this could definitely be considered the latter stage.

Interest rates and valuations are also adjusting. Corporate earnings continue to be strong, but the stock market seems to be ignoring this as "old" news. Valuations are becoming more reasonable after some recent pull backs in the equities market and we have been moving sideways since. Valuations are back to where they were in 2007 and 2008 but interest rates were a lot higher then, so we could support even higher stock prices here.[2]

This may suggest that equity returns will be lower than they have historically been, which is also common in late stage cycles. This does not necessarily mean that bonds would perform any better since we are in a rising interest rate environment which puts downward pressure on bond prices.

In the next six months the Fed will likely continue with a gradual pace of interest rate hikes. The economic growth along with this slow, measured stance from the Fed puts us at a low risk for a near-term recession. The current correction phase is likely to linger; yields could go higher but they

[1] Morningstar Direct, S&P Returns.

[2] JP Morgan Guide to the Markets.

Patricia Kummer, CFP® ◆ Certified Financial Planner™ ◆ 8871 Ridgeline Boulevard, Suite 100 ◆ Highlands Ranch, CO 80129

TEL 303-470-1209 ◆ FAX 303-470-0621 ◆ 1-877-767-0763 ◆ www.kummerfinancial.com

are starting to stabilize. Due to the supply of the Fed rolling off bonds from their balance sheet, yields have been kept relatively low.[3]

Higher market volatility, or back to normal is still favorable for equities. These market fluctuations could be caused by growing concerns about inflation and there could be earnings disappointments, especially since the pace of earnings growth has been so significant, it may be hard to beat. Political uncertainty is a concern, both at home (tariffs) and abroad (Italy) and geopolitics including North Korea, the Middle East and Russia. Rising budget deficits and debt could put a damper on future growth as well.

Investors need to be nimble in this environment. Heading into the summer months when markets are sleepy and just ahead of a mid-term election will likely continue to bring market fluctuations. This does not mean investing is not good, just tempered compared to last year.

It is important to be aware of your goals and align your strategy to current opportunities. This is a good time to revisit your financial plan and make sure your investments are positioned for this late-stage recovery.

---

[3] Excerpts from Brett Lapierre, CFA, Economic Workshop 6.6.18

[3] Excerpts from Brett Lapierre, CFA, Economic Workshop 6.6.18