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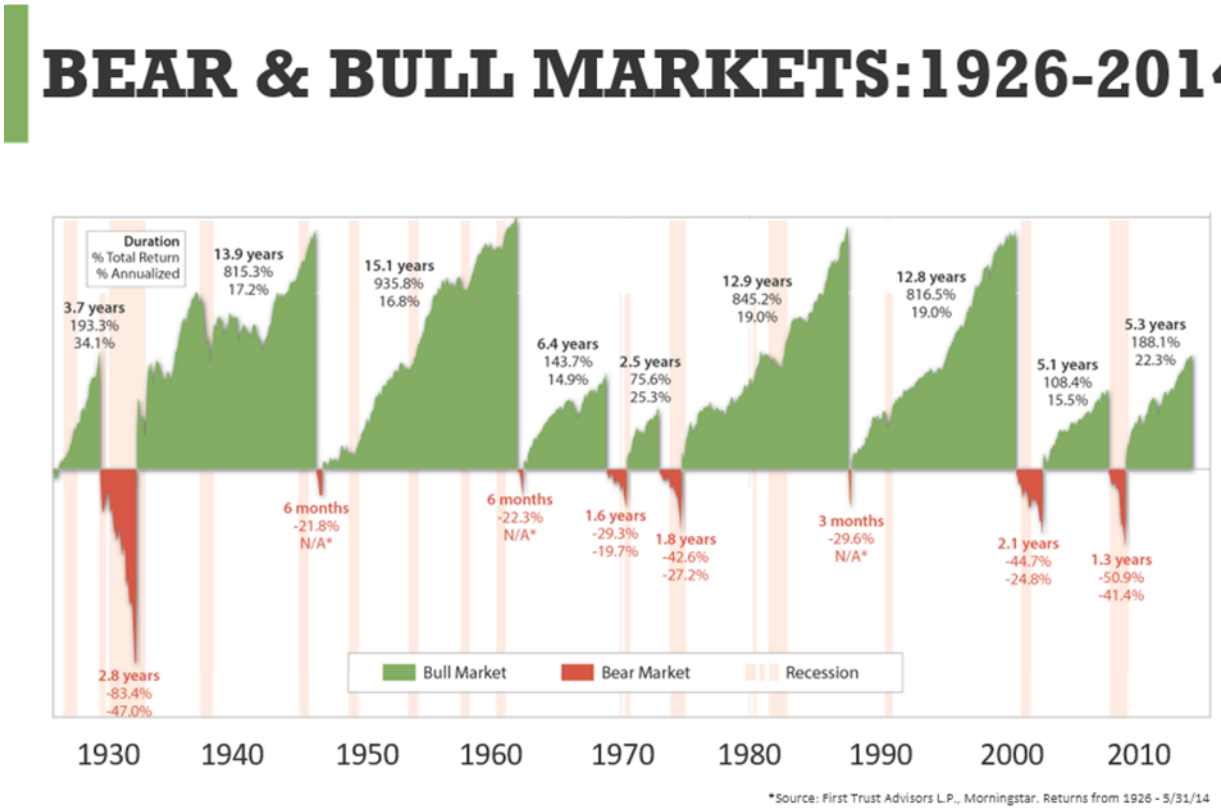
"What we learn from history is that we don't learn from history."

--Warren Buffett

History Lesson

While preparing for a presentation, I came across the slide listed below. It displays the Bull and Bear Markets since the early 20th century as well as the recessions.



The first take away for me is the number of recessions. Since the Great Depression in 1929 there have been thirteen recessions. The longest one lasted one year and six months (the "Great Recession" of 2008-09) and the shortest lasted six months (1980). The time between recessions ranged from two to ten years. The decline in the GDP ranged from 18% in 1937 to 0.3% in the recession of 2001.

So in my opinion, the dreaded "recession" that news organizations talk about as if they are an economic apocalypse are really more like when the kids were small and got an ear infection. The sick child was uncomfortable. Mom and Dad maybe were tired from lack of sleep. But the ear infection was not the end of life as we knew it. Plus, after the child recovered from this ear infection, they probably had another one sometime after that. Sort of like recessions.

Given the length of our financial life (in many cases to age 90 or beyond), a recession lasting six to eighteen months is really not much time at all. Therefore, my suggestion: Get used to the idea that "recessions happen," they are not an economic disaster, and no one in the media, government, finance, or academia can accurately predict when the next one will occur. Just know it will occur. It will last for about a year. It will end. Another recession will occur sometime in the next two or maybe ten years. And life will go on.

BEAR MARKETS

Opportunity? Or Financial disaster? Depends….are you buying or selling?

First a few facts. Since the Market Crash of 1929, there have been ten Bear Markets. Yes, you read it correctly… TEN !!! over the last eighty-eight years.

A Bear Market is defined as a decline of at least 20%. These ten Bear Markets were declines of 21% to 56%. So yes, these were scary times. The duration of the declines ranged from three months in 1987 to thirty months in 2000. The "cause" of the market crashes range from geo-political events like the Cuban Missile Crisis and Arab Oil Embargo to domestic economic issues like 20% inflation, DOT.COM bubbles, to real estate speculation and mortgage defaults.

BULL MARKETS

Bull Markets since 1929 have runs of twenty-six to one hundred forty-eight months ---- yes, that is over 12 years. The market advanced seventy-four to five hundred eighty-two percent….ya, 582%.

Therefore, my question to you is: "Is the stock market today (first quarter of 2017) over-priced and are we over-due for a decline?" Frankly, I do not know. Yes, the S&P is up 235% from the bottom on March 9, 2009 and that is above the "average" Bull Market, but nowhere even close to the best Bull Market ever.

A word of caution. Bull Markets can also be hazardous to your financial health. "What? How can that be? You are making money? Account values are going up….how can that be bad?"

Because many investors are herd animals. They operate from their heart and not their head. Too many people are not fully committed to a financial plan. They decide to invest after they realize "that everyone is making money" and "the economy is looking better now." They have a fear of missing out and therefore are late to the party and buy near to the top of the market.

The other danger is allowing your winners to run too long. Therefore, your portfolio is over-weighted to certain investments or asset classes. The result is greater risk exposure to the next Bear Market.

RISK TOLERANCE & FINANCIAL PLAN

What is your tolerance to market volatility? When is the last time you and your financial advisor discussed it? Are you and your spouse on the same page on volatility? Do you know what rate of return you need to achieve in order to accomplish your financial goals? Do you need to obtain "market returns" on all of your money? Or can you accomplish your goals with only sixty percent of the assets invested for growth and subject to market risks and the rest could be more conservatively invested.

BOTTOM LINE

Stock market volatility is your best friend or worst enemy.

- Are you buying or selling when the markets are down?
- Have you determined where your income is coming from?
- Have you planned for financial emergencies?
- Are you comfortable watching investment values go down?
- Are you excited when investment markets decline?

Attitude is everything.

Knowing that you have a plan creates confidence. Do you have a plan? If not call us and allow us to assist you.

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Fred Wollman earned his Certified Financial Planner "CFP®" professional credential in 1984 and the Master Planner Advanced Studies "MPAS®" designation in 2015. He holds securities registrations 7, 63 and 24. He is registered in California, Arizona, South Dakota, Colorado, Minnesota, Texas, Virginia, Washington, Oregon, Florida, Tennessee and Pennsylvania in addition to holding a California life and disability insurance license. From 1987 through 1990 Fred taught the CFP classes to aspiring financial professionals at San Diego State University.

He is on the board of the Valley Center Trails Association, ECOLife Conservation, and the Hidden Valley Kiwanis Club.

Fred and his wife of thirty-six years, Kathy, live in Valley Center, CA with two cats, a dog and two horses. Their daughter, JC, is married, lives in Carlsbad, and works with Fred. Son, Andrew, is married with two children and teaches in northern Arizona. Fred spends his down time relaxing with yoga, tai chi, riding horses and when he can get really away, backpacking the Anza Borrego Desert, Mt. San Jacinto or the California Sierra Nevada Mountains with Kathy and the kids.