August 2019

Fredrick T. Wollman, CFP® MPAS ® AIF ®

Wollman Wealth Designs

144 S Grape St, Escondido, CA, 92025 / E-mail: fwollman@voyafa.com

Phone: 760-737-2246 — www.fwollman.com

Same Event + Different Outlook= ??? Result ?

A few weeks ago on a Friday, I was asked to return a call to a client that was concerned about the potential outcome of the 2020 election.

On the same Friday, I received an email from a client that said he could not meet with me because they were going to Italy for three weeks to spend the profits his portfolio has made in the last couple of years. He closed by saying that "if President Trump is re-elected the markets would probably tank and he wanted to spend his profits while he still could."

I returned the call of the client that wanted to discuss 2020 and the effect it could have on his investments. "If Trump is not re-elected and we get a bunch of Democrats, the stock market will go down 50% the next week."

Same event….different outlook...How much are you willing to bet you are right?

Background?

- September 20, 2018 the S&P 500 finished at an all-time-high of 2,904.
- Closing value, Christmas Eve 2018 was 2,351….down 19.8%.

  Worst fourth quarter since 1931.

  Even worse than Q4 of 2008.
- Closing value July 26, 2019 is 3,025. Up 28% from previous low.

Questions?

- Did the 505 companies that make up the S&P 500 become 19.8% less profitable in the last quarter of 2018?
- Did the assets of those 505 companies, their products, brands, reputations lose 19.8% of their value in the last three months of 2018?
- Are those same 505 companies 28% more valuable / profitable last Friday than they were last Christmas?

The answer to the last three bullet point questions are NO; I DON'T THINK SO; and OF COURSE NOT.

So why does the "stock market" go up and down so much?

Good Question. The field of "behavioral finance" has been looking for the answer to this question for the last thirty years. Richard Thaler is the latest economist to be awarded the Noble Prize for his study of investor behavior. Daniel Kahneman, also a Noble Prize winner, published much of his theory in the 2011 book, <u>Thinking, Fast and Slow.</u> Both men concluded in their study and presented in published articles and their books that human nature is looking for easy solutions to complex problems. Our brains tend to look for patterns –often where there are none. We are inclined to think we are smarter than most people (over-confident bias). We look for information to support our natural inclinations (framing). We are influenced by what we are seeing / hearing from others (recency bias) and think that "everyone" is thinking a certain way so it must be right.

<u>*Bottom line. Many people are their own worst enemy when it comes to investment decisions.*</u>

Let's look at it another way.

- Will San Diego experience an earthquake in the next twelve months?
- How about a major wildfire?
  - When?
  - How big?
  - Will your home be destroyed? Damaged? How badly?
- Will New Orleans be affected by another hurricane?
  - When? How big? How many people displaced?
- Will Tulsa have another tornado?
  - When? How big? How many homes destroyed?
- Will Minneapolis get another blizzard?
  - When? How deep is the snow? Will power go out?

Can you predict when the next natural disaster will occur or the impact? NO

- Eleven earthquakes greater than 6.4 have occurred since 1952 in California.
- Major county-wide wildfires occurred in 2003 and again in 2007. Localized fires occurred in San Marcos / Carlsbad in 2014 and the Lilac / Bonsal fire was in 2017.
- So, when does your crystal ball say the next one will happen? How much are you willing to bet on it?

Should you prepare for the possibility of a natural disaster? YES

- Does that preparation include selling your house now when prices are high and then waiting until the disaster occurs to buy another one? Probably not.
- But clearing brush around the house is a good idea; storing ten gallons of drinking water; non-parishable food; extra batteries; a solar cell phone charger; shoes under the bed to protect from broken glass; and making sure your homeowner's insurance is current are all good ideas.

But should you sell all your stocks before the election in case Trump wins??? Or doesn't win???

Allow me to go out on a limb…neither the President nor Congress have a significant impact on company profits. Remember you are investing in companies….not the stock market. The stock market reflects the emotional expectations of future events and may or may not be impacted by current events (elections, the Fed adjusting interest rates, terrorist attacks, Presidential tweets).

Details about the return of the S&P 500 *(5)* during the last thirty-nine years of presidents**:**

- Carter '77-'81: 0 negative returns.
- Reagan '81-'88: 0 negative years; but one with 1% and another at 2%.
- Bush Sr. '89-'92: 1 negative year.
  Clinton '93-'2000: 1 negative year in 2000 --"dot-com" bubble burst.
- Bush Jr. '01-'08: 3 negative years: '01 – terrorists on 9-11, '02 -- Enron & '08 -- financial crisis.
- Obama '09-'16: 0 negative years.
- Trump '17-'18: 0 negative years.

Many people have opinions both good and bad about past / current presidents. Yet, I would propose that most presidents have little to no impact on stock market returns other than perhaps our fear of how badly they can / will make a mess of things.

The value of companies is primarily affected by company profits…ie. "earnings" over the long-term. However, over the shorter-term the "emotional / newsie / twitter stuff" have a greater impact.

"The stock market is not the economy and the economy is not the stock market." Kai Ryssdal – Marketplace on NPR.

Consumer spending constitutes 68% of Gross Domestic Profit --- ie…the economy.

- The unemployment rate is currently 3.7%. *(1)*
- Current duration of unemployment is 9.6 weeks. *(2)*
- Federal Reserve reports that household net worth was up 4.7% in Q4.2019 *(3)*.
- JP Morgan Asset Mgmt reports that household debt service ratio --- debt payments divided by gross income – is 9.9% lowest since 1980. *(4)*

Bottom line: Consumer is feeling pretty good right now.

If you are concerned about the positioning of your investments and the impact of the election / interest rate changes / natural disasters / climate change / terrorist attack / war could have on your financial future call me and we can talk.

https://fred.stlouisfed.org/series/UNRATE
https://www.deptofnumbers.com/unemployment/duration/
https://www.federalreserve.gov/releases/z1/dataviz/z1/changes_in_net_worth/chart/
https://am.jpmorgan.com/gi/getdoc/1383614189296; p.20. FactSet FRB
The S&P 500 is an unmanaged index of the performance of 500 companies. You cannot invest directly in an index.

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.

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 .

921893_0820