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Financially, What to Expect (prepare for) Next??

Conclusion with explanation to follow:
This is really all about preparation for future events.

Preparation comes in two forms:

Financial
Emotional

First the financial preparation. **It is impossible to consistently predict short-term movements in the stock market.** Any success (or more accurately described as luck) anyone has had in the past predicting near-term market moves is unlikely to be repeated in the future. Probably the only predictable aspect of the stock market is the unpredictability of it. So, if I can successfully predict unpredictability, what to do about it?

The fatalist would say "nothing." However, I would argue with that approach. There are absolutely things you can actively do to "protect yourself" and even profit from the unpredictability of the stock market. Of the two forms of preparation: "financial" and "emotional"; by far the more important is the emotional aspect.

Our human brain is an evolution of the same brain our cave-man ancestors used to survive in an environment where everyone and everything outside of their small "tribe" was a threat to their existence. One small mis-step or moment of inattention could mean eating a wild animal for dinner or being dinner for a wild animal. The sound of a snapped twig could mean it is time to pick up a rock to fight or flea to safety.

We too are programed to flee from danger. Our nature is to be cautious of unfamiliar situations. The sound of a smoke alarm means leave the building. Brake lights from the car in front of you on the freeway means you need to hit your brakes. Sounds of gunfire means run / hide / or pull out your own piece (for some people).

These are all immediate reactions we make without thinking. In many cases, these reactions extend our lives and reduce physical injury. Therefore, a good thing.

However, when it comes to your money / investments, knee-jerk reactions to bumps in the night, your internet news feed, or recommendations from your neighborhood "market guru" can be harmful to your financial health. You need to have a plan. You need to have a method to evaluate information. You need to ask yourself what is motivating your thoughts to act in one way or another. You need to carefully digest the situation and make no decisions in a hurry; when you are tired; hungry; late in the day; after your favorite team lost the big game; or under stress.

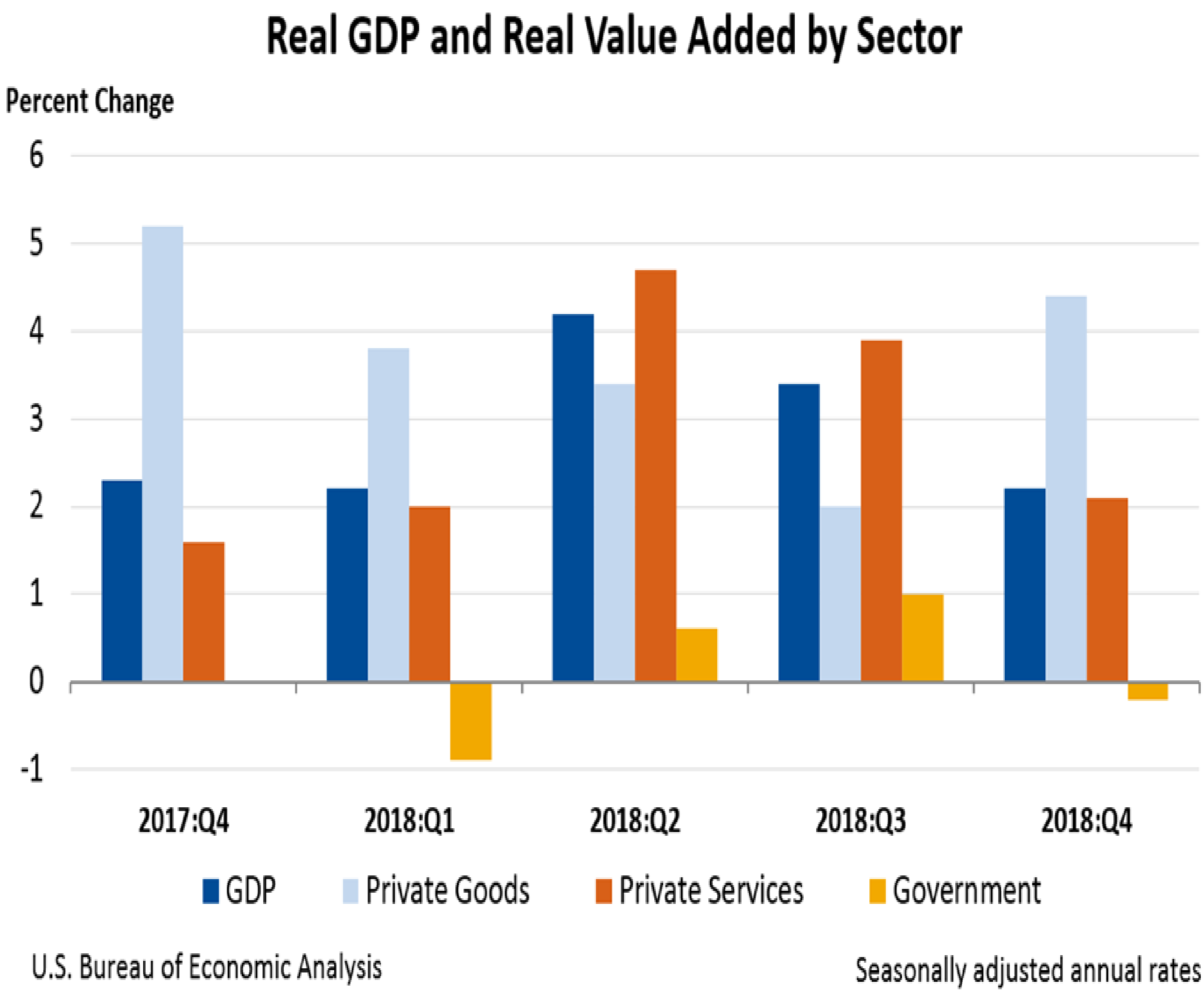
If you think this sounds a bit "silly." Think back over the last few bad decisions you have made. What else was going on at the time? If you cannot remember the last few bad decisions you have made, then I propose you are suffering from "overconfidence" bias. If you doubt me, then read any books written by Richard Thaler or Daniel Kahneman.

Now for the **financial preparation.** Everyone's situation is different. What is appropriate for one person could be inappropriate for another. Talk to your financial advisor to develop your plan.

However, a few general rules: Plan your cash-flow needs. This means that any cash you could possibly need from your investment portfolio during the next year should definitely not be in stock. Take no risk with that money. Money possibly needed in the next two or three years should be invested with minimal volatility.

The purpose of "safe money" like cash, CDs & Money market is to have readily available funds for dealing with emergencies or investment when opportunity arrives. I propose that your "safe money" is not a method of accumulating wealth --- after the interest earned is taxed and inflation is considered, the value of the principal gradually loses purchasing power.

Any money not needed to fund your "safe money" category, should be invested in long-term growth assets.



.https://www.bea.gov/news/glance

Peace of mind comes from knowing that you have "low-risk" money available for short-term needs and long-term growth assets invested to fund not only your financial future but that of future generations, as well as supporting organizations that you care about and make the world a better place.

Now that you are prepared for the future emotionally and financially, what do we know?

The S&P 500 (US stock market) closed at ***2840*** May 20, 2019.

- Up 14.2% from 2486 on December 28, ***2018.***
- Down 2.5% from ***2914*** at the end of Q-3 2018.
- Up 6.4% from ***2670*** end of Q-1 2018.
- Up 6.2% from ***2673*** on Dec 31, 2017.

The ten-year T-Bill is yielding 2.47% now.

- Yield is up to 2.69% December 31, 2018.
- Yield is up to 2.96% end Q-1 2018.
- Yield is up to 3.06% by the end of Q-3 2018.
- Yield was 2.39% at the end of 2017.

According to gross domestic product (GDP) by industry statistics released by the Bureau of Economic Analysis, 15 of 22 industry groups contributed to the overall 2.2 percent increase in real GDP in the fourth quarterThe point here is that the US and global economy are both growing ---- not growing by leaps and bounds, but none the less growing. But what is the US stock market doing? It is doing what it has always done. Going up and then going down and then back up again very much independent of what the economy is actually doing.

As Kai Rysddall on Marketplace (NPR) often says: "The economy is not the stock market and the stock market is not the economy." According to Doug Cote on the Voya website Global Financial Perspectives it is all about the fundamentals… corporate earnings. Are companies making more money per share than the same time last year?

Open the link below. Look carefully at corporate earnings over any time frame and you will see growth. Come to your own conclusion about what the future will bring.

https://www.macrotrends.net/1324/s-p-500-earnings-history

Right now….I mean right now…the US and global economies appear solid. Yet the pontificators on the 24-hour news cycles can only talk about trade wars, political instability both here and abroad, social unrest, wars and rumors of war. Their job is to "get you to watch more news" and they do that by making it as exciting as a Tom Clancy spy novel….if the news were a documentary about growing vegetables no one would watch.

Financially, have a plan.

Make sure at all times to have your spending needs covered from a reliable, low-risk source for the next three years.

When markets are up, refill any empty buckets.

When markets are down, work your plan--don't make emotional decisions.

When markets are down, add to your long-term growth holdings. Remember, you make money by buying in times of turmoil and uncertainty….not when everything looks great, grand , glorious and everyone else is buying.

Emotionally, have a plan.

Don't make short-term decisions.

Have a plan to deal with uncertainty.

Have a plan to filter information.

Have a financial plan to help with your emotional plan.

Call me if you have questions about any of this. I am happy to talk about your situation.

A great article in the Saturday, May 18, 2019 Wall Street Journal does a great job of discussing same point.

https://www.wsj.com/articles/mr-market-just-got-inside-your-head-dont-let-him-mess-with-you-11558105474

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 .

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