"Are the good times really over for good?"

By Tommy Williams, CFP®

Back to reality...After months of eerie calm, stock market volatility has returned. The CBOE Volatility Index (VIX) – a measure of how turbulent investors expect stock markets to be during the next 30 days – appeared to fall asleep in November 2016. For more than a year, a level of serenity that is rarely associated with stock markets prevailed and U.S. share prices moved steadily higher.


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It appears that era of virtual serenity is behind us. Barron's wrote:

"With February's swift stock market correction, volatility has arrived and will probably stay awhile. The downturn last week ended a streak of 404 trading days without a 5 percent drop in stock prices from the previous high – the longest such streak in market history.

The last correction came in February 2016, when stocks dropped 15 percent. Investors then fretted that Chinese economic growth might be slowing, which turned out to be a false alarm. Long term, the latest nose dive might yet become just a bull speed bump, but there's already been plenty of pain."

So, is this a speed bump or is it the beginning of a bear market? A bear market, generally, is a decline of 20 percent or more, and it is normally accompanied by a recession, which is a significant decline in economic activity.

In general, financial firms and publications do not anticipate a recession in 2018. However, the recession forecasting business can be challenging. No matter what happens, the key is to stay calm. At times like these, emotion grabs investors by the throat, and it can be difficult to recall that markets and economies tend to move in cycles. Historically, bull markets lead to bear markets, which lead to bull markets. Likewise, economic expansions are followed by contractions (recessions), which are followed by expansions.

Market downturns are not a destination. They are more like a movie rather than a snapshot. Markets and economies are cyclical. For instance, from 1945 through 2009 (the start of the current expansion), the United States experienced 11 economic cycles. The average recession lasted for about 11 months and the average expansion persisted for about 58 months, reported the National Bureau for Economic Research.

After the recent market decline, many people are concerned the bull market may have run its course, and a bear market may be ahead. Since bear markets usually mark the beginning of recessions, let's take a look at what some leading financial companies and publications have to say about their expectations for 2018:

"Most analysts think that while profits are growing and the economy is healthy, the stock market will be supported. But there is scope for a lot more choppiness as investors await the Federal Reserve's rate decisions and look for data to indicate whether inflationary pressures are rising."
--The Economist, February 8, 2018

"An overheating global economy could mean a more rapid shift by central banks to rein in stimulus, often a precursor to recession. Yet, we still believe a recession is not on the near-term horizon."
--Schwab market commentary, February 9, 2018

Forecasting is a difficult task. Time will tell. I suggest we stay the course until the important fundamentals tell us to do differently. This week's positive market movement should be somewhat soothing to the emotions.

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