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What investors should do with the Dow at 20K



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Tom Anderson | [@bytomanderson](#)
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The Trump rally has finally pushed the [Dow Jones industrial average](#) above the 20K milestone. Financial advisors warn clients not to lose perspective.

"Whenever my clients talk to me about the performance of an index, especially the Dow, I always remind them that the Dow is only a measure of 30 stocks and not a broad measure of market performance," said Patrick Lach, a certified financial planner and founder of Lach Financial in Louisville, Kentucky.

Surpassing 20K doesn't mean more good times are ahead, said Robert Cheney, a CFP with Westridge Wealth Strategies in Palo Alto, California. "When the Dow broke 5,000 in 1995, it basically continued screaming straight up," he said. "In the spring of 1999 when it broke 10,000 to much fanfare, it took another 12 years of suffering through the dot.com bust and financial crisis before it was meaningfully past 10,000."

As the Dow has climbed to new highs, bullish sentiment rose sharply since the election and then dropped back down in recent weeks. (See chart below.)

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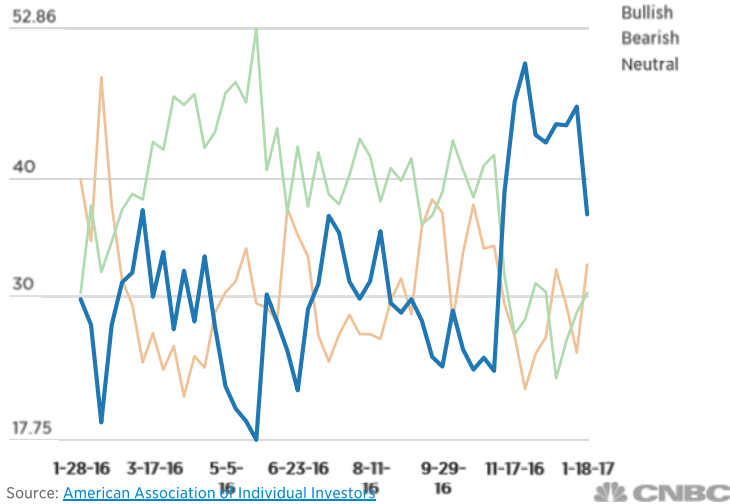
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Investor sentiment rose after the election

Members of the American Association of Individual Investors responded bullishly after the election when asked how they feel about the direction of the market over the next six months.



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Postelection market enthusiasm was at the level not seen since the height of the dot-com bubble or the last housing boom, said Charles Rotblut, vice president of the American Association of Individual Investors and editor of the AAIJ Journal.

"The new highs are Mr. Market's way of compensating investors for all the volatility. It shows the value of staying allocated to stocks no matter what's going on," Rotblut said.

He noted that for the patient, buy-and-hold investor, the Dow has returned nearly an annualized 11 percent over the past five years.

Stick to your plan

A new Dow high shouldn't change your financial plan.

"There is no particular significance to a Dow milestone such as 20,000. As the economy grows and corporations do as well, eventually we will hit 25,000, 30,000, etc.," said Burton Malkiel, a renowned economist, author of the indexing classic "A Random Walk Down Wall Street" and chief investment officer of Wealthfront, a [robo-advisor](#).

Malkiel said investors should stay broadly diversified, be sensitive to the tax efficiency of their portfolios and keep costs low.

Rebalance if needed

Now comes the hard part. If you are worried about more volatility ahead or that your portfolio has drifted too far for its target allocations, it may be time to rebalance.

Rebalancing is the sometimes painful process of selling assets that have appreciated and buying ones that have fallen in value. It forces investors to sell high and buy low. That can be especially hard to do when enthusiasm is high.

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"It's virtually impossible to get investors to rebalance to a more conservative portfolio at the peak of a true bubble," said Ryan Poage, a CFP in Kansas City, Missouri. "The next bubble won't be using the price-to-eyeballs ratio like dot-coms used when the Dow hit 10,000, but there will be some other silly measure used to justify paying foolish prices."

Investors should be systematic about their approach to rebalancing, and not focus on a market milestone, said Jon Luskin, a CFP with Define Financial in San Diego.

"If you rebalance too often, you'll decrease your investment returns because of taxes and other transaction expenses," Luskin said. "Save yourself money and time and do nothing."



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