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The Next Stock Market Crash Is….

Going to happen…..someday.

"The only function of economic forecasting is to make astrology look respectable."

—John Kenneth Galbraith

During 2017 the S&P 500 was up 21.2%; the MSCI (world developed markets excluding US) was up 24.21%; and MSCI Emerging Markets up 37.3 %. (1)

So are we overdue for a market correction? Doesn't this stuff cycle? What goes up has got to come down? Right?

- S&P 500 is 71% above the peak of 2007. (1)
- S&P 500 is 295% up from the bottom of the market crash on 3/9/2009. Source: Voya Global Perspectives, Fact Set
- The S&P 500 index is up 5.1% through January 19, 2018….the best 13 day start to a year since 1987. WSJ January 22, 2018

Does this mean we are in a bubble? So…. should I sell all my stocks and wait in cash until after the crash?

Consult with your financial advisor before making a decision. **But before selling all your stocks to sit on the side lines to wait for the next market crash, consider the following facts.**

- Corporate earnings (profit) of US domestic companies are running at 7% above levels of one year ago. The MSCI world earnings growth is up 9.8%; Emerging MSCI earnings are up 26.9%; MSCI Japan up 3.8%; and MSCI Europe up 4.5% through the third quarter 2017. *Source: Voya Global Perspectives 12/31/2017; (2)*
- GDP grew in 2017 in 40 countries as reported in The Economist and only two were in recession (Venezuela -12.5% and Saudi Arabia -0.7%). *Source: The Economist 01/12/2018.*

- The US dollar ($) is trading at lower levels now compared to all major foreign currencies over the past year. This makes US products cheaper to foreign buyers than they were a year ago. The $ compared to Euro is -12%; -3.4% to Yen; -7.1% to Chinese Yuan; -13.8% to Mexican Peso; and -6.0% to Canadian dollar. Change in US Dollar (3)

- US manufacturing is at the highest level ever. *Source: Voya Global Perspectives.*

- Global consumption of goods and services is up 100% over the past decade. Ninty-five percent of global consumers now reside outside the USA. China is now the worlds largest auto market. *Source: World Bank; OICA; Voya Global Perspectives*

- It appears at least initially that the change in tax law is encouraging US companies to return foreign profits and cash back to the US. If this cash is used to expand operations and increase wages, it will help the economy and eventually shareholders. If the cash is used for stock buybacks and increased dividends, it may not be great for the economy but may be a very good thing for shareholders. This is my opinion and based upon what I hear on MarketPlace on NPR.

Some items I would encourage you to consider.

- Flow of money into equity mutual funds that invest in US domestic stocks has been negative for the last few years. Meaning more sellers than buyers. US Equity Fund Flows (4)

o My observation is that the normal / public / investor is wrong most of the time. My opinion.

- The US and global economies are strong as per the previous points.

- Take a deep breath. Ask yourself. What is fact? What are your feelings / emotions? What is more important to you? Facts? Or the feeling or emotions?

- Why did you hire your financial advisor?

o Fuel your emotional response to emotional issues?

o Tell you yes and feed your emotional biased responses to emotion??

o Tell you the truth… and risk your negative response?

What are your Priorities?

Time for a candid conversation with yourself, family, financial, tax and legal advisor. What is important to you? WHY is it important?

What is important to you?…..WHY????

What compromises will you make to allow your priorities to happen? WHY?

What are your income needs in the next 24 to 48 months?

- ***Suggestion: Take little to NO-RISK*** *with this money.*

- ***Suggestion: Invest the rest of the money as if you will live forever.***

- *These are personal opinions. Consult with your financial, tax or legal advisor and family before taking action.*

Peter Lynch, manager of Fidelity Magellan Fund from 1977 to 1990 has been quoted regarding trying to outguess and "time" the markets: "More money has been lost by trying to avoid a market decline than has been lost in any market decline. "

Your Portfolio is NOT an Index

In most cases your portfolio is not just the S&P 500 or any other index. Your investments were selected to accomplish your financial goals within your tolerance for volatility. The portfolio probably contains some combination of stocks and bonds. The stocks include both large and small companies from various industries or sectors in both domestic US and foreign companies. The bonds probably are a combination of highly rated government and corporate bonds as wells a sampling of higher yielding lower-quality companies.

There is never enough money in anyone company, sector, or country to make a "killing" or to "get killed." This what diversification is all about. That is why comparing your own investment returns to a single index usually makes you frustrated and disappointed.

Tax Changes & Your Withholding ??

Just because your "take home pay" increases in February does not mean you will get to keep all of that money. Individual results vary greatly and you cannot assume your new withholding will match your tax liability. The Tax Policy Center estimates that 80% of Americans will see a tax cut for 2018, while 5% will see an increase and the rest have no change. The W-4 form used by employers cannot take into account all aspects and provisions of the changes. According to a report in the Wall Street Journal, about 75% of taxpayers got refunds in 2016 averaging $2,800. But all bets are off for 2018. Be sure to consult with your tax advisor that your "married with 3 dependents" maybe should be changed to "married with 2 dependents."

The same applies to all of us that make quarterly estimated tax payments. Talk to your tax professional to determine if your taxes are going up?? or down??

Footnotes:

(1) The S&P data is provided by Standard and Poors Index Services Group. An index is not available for direct investment. Past Performance is no guarantee of future results.

(2) MSCI is in US dollars. Indices are not available for direct investment. Performance does not reflect the expenses associated with management of an actual portfolio.

(3) http://www.x-rates.com/table/?from=USD&amount=1

(4) http://www.yardeni.com/pub/ecoindiciwk.pdf

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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