"Will we see a market melt-up?"

By Tommy Williams, CFP®

Who doesn't like to see a record broken? Michael Mackenzie of Financial Times reported on a meaningful milestone. Right up there with the 4-minute mile and record signing contracts of professional baseball players.

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"Less than four months through the year, the S&P 500 including the reinvestment of dividends has returned to record territory, along with the technology sector…Around the world, many benchmarks enjoy double-digit gains, led by China's CSI 300 index, having risen more than a third already during 2019."

However, pessimism about economic growth prospects has kept institutional investors – including professional money managers whose performance is typically evaluated quarterly – on the sidelines. As a result, despite a *"market-friendly shift by central banks and an expansion in China's credit growth that laid the ground for a rebound in activity,"* they have missed out on some significant gains.

Therefore, Financial Times suggested when institutional investors begin moving money into stock markets, we could see the market 'melt up.' A melt up occurs when valuations surge for reasons that have little to do with improving fundamentals and a lot to do with investors rushing into a market because they fear missing out on gains.

Investors seeking safe havens can always minimize any gains from institutional investors entering the market. However, Jack Hough of Barron's suggested investors will ignore safe havens, even though stock valuations remain high. He wrote, *"…elevated prices don't rule out more gains. The S&P 500 was this expensive at the end of 2016. It has returned 36 percent since."*

Some will take those words as encouragement, others as a warning. No matter which camp you are in, it is a good time to have a carefully diversified portfolio and a competent trusted advisor with whom you can share your thoughts.

Where the S&P 500 sits relative to historic levels is important because it (and the Dow Jones Industrial Average) gets lots of publicity. That tends to influence how wealthy we think we are (or aren't) and we tend to allow our emotions to kick in causing decisions to be swayed by swings in that index. It's really not a positive thing because we make short-term decisions driven by

emotion regarding long-term matters that should be driven by fundamentals. But, we are human and that's how most of us think. And the rich get richer and the poor get poorer.

That leads me to a couple of other interesting things that defy every day logic. What state do you think has the highest percentage of adult residents who have a net worth of at least $5 million. North Dakota, go figure.

On the negative side of things, 45% of the 76 million Baby Boomers have no retirement savings. The fact that the S&P set an all-time high (was up 16.6% year-to-date through Good Friday) probably isn't that interesting to that group. Baby Boomers were born between 1946 and 1964. Therefore, the oldest boomers turned 65 in 2011. Those reaching 65 this year (2019) represent the 9th year of 19 years of their generation. An aging population with no savings? Thankfully, it would appear that the Social Security system will be solvent long enough to provide a minimal level of security for this group. You'll be hearing a lot about Financial Literacy in the coming years.

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