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Happy Birthday to You !!!

Yes…..Happy Birthday to Each of Us !!!

Each and every one of us had a birthday on March 9….so break out the cake, candles and balloons. I am serious and no I am not crazy.

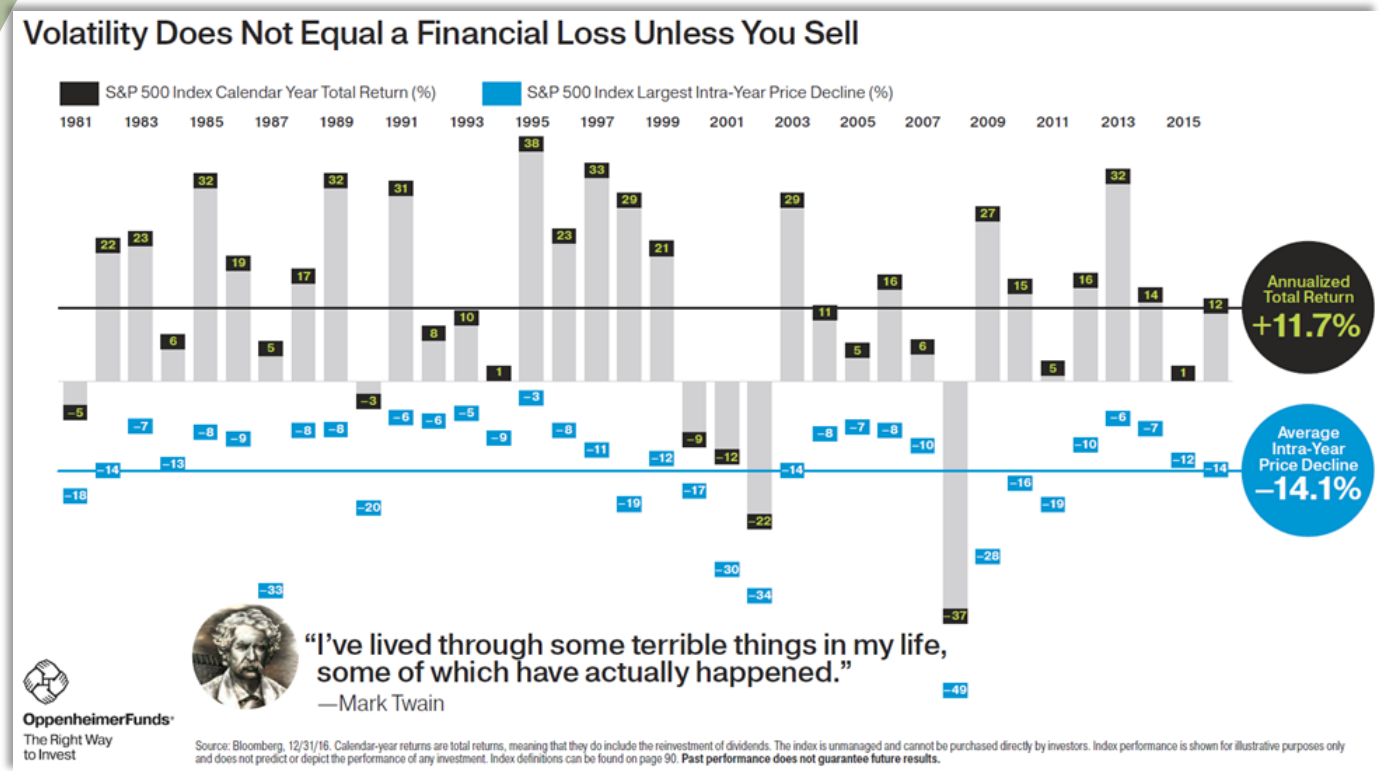
March 9 was the day the current Bull Market was born in 2009. So, every year on March 9 we should celebrate --- or at least we should celebrate until this Bull Cycle ends. On this date in 2009 the S&P 500 closed at 676. As of March 17, 2017, the S&P 500 is at 2378. That is an increase of 251%.

But did you know that within this Bull Market, the S&P has experienced two major market declines? Quiz? When were they? And why did they occur? Look to the end of this newsletter for the answer.

But now the huge question is when will the Bull die and become a Bear? *"Aren't we 'overdue' for a correction?" "I remember reading….or they say….that Bull markets tend to last about three years." "I am worried about domestic politics." "How will a change in US trade policy affect our economy?" "The economy seems to have grown so slowly, how long can it continue?" "What about Brexit? Greece? Brazil? China? North Korea? Middle East? ISIS? And the biggest bear of all, Russia?"*

OK… Slow down and allow me to address these issues. But before I do, you need to understand some basic facts of life regarding your money.

The chart below is the last thirty-six years of the S&P 500. The grey bars represent the performance for the calendar year. The blue squares illustrate the mid-year decline the S&P had during that year from the value at the beginning of the year.



Let's look at a couple of years. During 1997, at one point the S&P 500 was down 11% from the value at the beginning of the year yet ended the year about 33% higher. In 2008, at one point the S&P was down 47% and yes it finished the year down 40%. In 2011 (the year the government shut down and U.S. Government Treasury bonds were downgraded from AAA to AA), the S&P was down 19% and broke even for the year.

If I count correctly, out of thirty-six years, there are thirty-six years that the market was down at some point from the beginning value. The declines range from 3% to 49%. I count 30 up years and 6 down years.

Stock markets go up and down for many real or imagined reasons. We cannot control or predict timing or duration of volatility. Over the thirty-six years' duration of this chart, there is a three to one prejudice toward up years. In one period, three down years were lumped together during 2000, '01 and '02. The worst single down year was 2008. This was followed by a decline of 28% in the first couple of months of 2009 to bottom out on March 9 and then the year ended up 26%.

Downward volatility is not always bad. If you have to sell when the market is down, yes that is bad. However, it you don't have to sell, you have experienced no harm. If you have "dry powder" to purchase equities during times of downward volatility, this downward volatility can be viewed as an opportunity.

What is your attitude? Is downward volatility bad because your statement values are lower (for the time being)? Or is downward volatility good because equities are cheap?

Is your focus on your statement values today? Or is your focus on the accomplishment of your financial goals?

"The Key is not to predict the future but to prepare for it." Pericles

The Bull Markets runs:

When	How Long	Gain
1930s	13.9 yrs	815%
1950s	15.1 yrs	935%
1960	6.4 yrs	143%
early 70s	2.5 yrs	76%
late 70s into 80s	12.9 yrs	845%
late 80s to '99	12.8	816%
2002 through 2007	5.1 yrs	108%
March 2009 to March 2017	8 yrs	351%

Back to Basics: What is a Stock and Why Does the Price Go Up & Down?

When you buy an individual stock, you are a partial owner of company. You can make money in two ways: 1) The company pays out a cash dividend to all shareholders (more on this in a moment; 2) The price of the stock goes up.

Stock prices change based upon supply and demand. Generally speaking, there is a fixed number of shares traded "in the market" and the price of shares changes based upon supply and demand. If more people want to buy, the price goes up. More sellers than buyers, the price goes down. Why would people want to own a particular company? 1) They like the company's product or services; 2) They think the management is smart. However, both of the previous two items lead to the following conclusion: 3) The company will be **more profitable in the future** than it is today, which in turn influences more people to buy the stock and causes the price of the stock to go up; 4) the dividend yield is attractive relative to other income producing investments such as bonds, CDs or T-bills.

Now, study the following chart for a few moments. What conclusions do you come away with?

	Price	Earning / Sh	P/E ratio	Div'd Yld
Amazon	$854	$4.90	174.29	na
Procter & Gamble	$91	$5.46	16.67	2.94%
Twitter	$15	-$0.65	-23.2	na
Snap	$20	-$0.620	-31.5	na

Prices, earnings and dividend yield come from Yahoo Finance March 17, 2017

Some of my take-aways are:

- Buyers of Amazon are very enthusiastic about the company becoming more profitable so they are willing to pay 174 times the company profit to own the stock.
- Investors in Twitter and Snap are betting this is the hot new technology of the future and gambling that these companies might make a profit someday. This means that if the companies continue to lose money (not make a profit) the stock price goes down more.
- Procter & Gamble is cheap compared to the rest of the list because you only pay $91 per share for $5.46 of profit or a Price to Earnings Ratio (P/E) of 16.67. This means you get a lot more profit relative to the price than many of the others. Plus, you get a dividend of 2.94%.

So, what is a dividend and why should a company pay one and why should I be excited about it? A dividend occurs when a company makes a decision to share some of the cash it has on hand with its shareholders rather than paying higher salaries to employees, developing new products, building a new factory or buying a new corporate jet for the CEO.

As an investor, I like dividends because I get a return on my investment every time a dividend is paid and I don't have to sell the stock to make money. I like it when the company decides to pay a bigger dividend because I get more money and the bigger dividend tends to make others want to buy the stock, which as we learned makes the price go up…..all good. If the company decreases the dividend, I get mad because I get less income…(not good) and the dividend cut might cause some people to sell their stock which makes the price of the stock go down….(even more not good).

"But it seems like paying money to shareholders is not in the interest of making the company more profitable in the future because that dividend is not available to management for growing the business." YES, correct. Some industries and companies have a business model that feature paying a dividend and that dividend is the primary reason some people own that stock. Therefore, that dividend is critical to the stock price and the reason to own that stock. Other companies like Apple (technology) traditionally never pay dividends. However, when the cash that Apple was holding became an obscene amount a few years ago, shareholders complained that Apple needed to share more of the money with them.

Bottom line: Stock prices go up when investors believe the company will be more profitable someday. Prices go down when investors believe the company will be less profitable in the future. That is why when the media raises concerns about a possible recession, stocks might go down. When we have low unemployment and lots of economic growth, stocks go up.

Call me to talk more about "Behavior Investing" and how your emotions can be your own worst enemy. Predicting the future is fraught with danger. Your portfolio is a tool of the financial plan.

Question from front page --- Market declines within the Bull:

- April 2011 to September 2011 the S&P declined 15.3%. Why? Congress failed to extend the debt ceiling resulting in the downgrading of U.S. government debt from AAA to AA, the Federal Government shut down resulting in the closing of National Parks among other government departments, all leading to fear of another recession. *What fixed it?* Congress enacted the legislation to extend the debt ceiling, the economy continued to slowly get better and fears subsided.
- May 2015 to February 2016 the S&P declined 12.3%. Why? Corporate earnings stopped growing (less profitable than a year earlier) and the price of commodities especially oil began significant declines which resulted in fear of a recession. *Plus, the Bull Market was over six years old, so the Bull is old, tired and should be dying…right? What fixed it?* Honestly, I don't know. The market just started to go up in February 2016. Corporate Earnings continued negative until the fourth quarter of 2016 when they turned positive after five quarters.

As I type this, earnings continue positive, housing starts are good, corporations are hiring and appear to have a difficult time finding qualified applicants. Does any of this guarantee markets will continue to grow. Heck no. Does this mean the Bull will die soon. Heck no. You cannot predict when, why, what or where.

Remember, the financial plan drives the portfolio. Investing based upon "feeling, predictions, or emotions" is a dangerous thing.

"The key is not to predict the future but to prepare for it."

--- Pericles

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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 .