Magellan Planning Group, Inc.

Will China and Cheap Oil Crash the Market?

-J. Kevin Meaders, J.D., CFP®, ChFC, CLU*

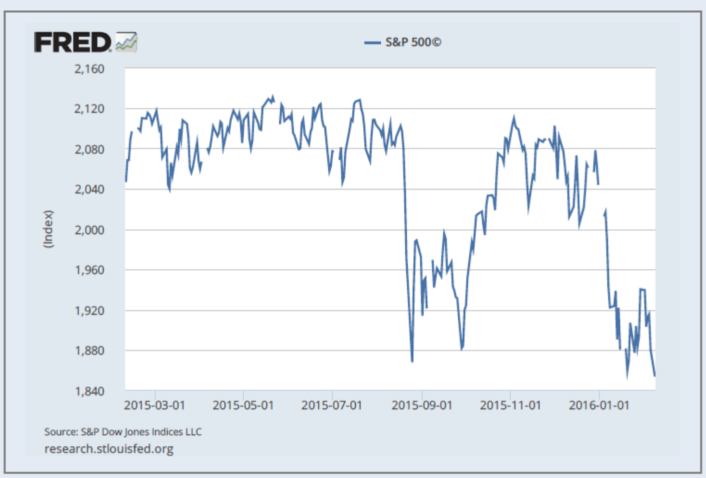
February, 2016—Clearly 2016 has not yet turned out to be the bull market we had hoped for; and I know that the news stations are pumping out so much fear right now that you no one could possibly be immune, so I wanted to reach out.

Remember that fear is great for the media because it is the most effective device for getting viewers to tune back in after the commercial break. Fear is great for ratings, thus great for advertising rates, thus great for the network profits. No matter what they spin at you, try to remember their ulterior motives.

Without question, there are plenty of geo-political conflagrations constantly evolving around our planet. The price of oil has virtually collapsed, there is the ever-present unrest in the Middle East, and the Chinese communists are manipulating their economy.

But is any of this really new?

<u>China</u>



If you remember, the stock market pullback originally occurred last August when China re-pegged their Yuan to the dollar (see chart). This immediately sent world stock markets roiling and forced China to pass a moratorium on the sale of many larger companies' stock.[1] So people were stuck holding shares that they couldn't sell until January 8th – an arbitrary date set by government edict.

So I ask you: if you wanted to sell something and the government said you couldn't sell it until January 8th, what are you going to do come January 8th?

[1] http://www.bloomberg.com/news/articles/2016-01-04/chinese-stocks-in-hong-kong-extend-annual-slump-as-yuan-declines

That's right. You'll most likely sell it. Well—surprise!—everyone else was thinking the same thing (communists don't have a lot of common sense apparently). Everyone who could—those who had no restrictions—sold first, followed quickly by everyone else, as soon as they legally were allowed.

This is just another quintessential example of the law of unintended consequences. It boggles the mind to think that the world's second largest economy is essentially dictated by persons with so little understanding. Indeed, one could say the same of the world's largest economy, though I digress.

So far, the old men in Beijing have not pulled any new tricks. But, if nothing else, we can be sure that any information coming from the regime is sure to be misinformation. This seems to be a universal sentiment, which, ironically, could force the regime to be "more believable."

But know this: the communist party will do anything and everything necessary to maintain its position. If this means building more bridges to nowhere and cities for no one, then so be it. Do you not find it ironic that a capitalist country is so inter-dependent on a communist country? It would make a cynic wonder: 'do we really want a democratic revolution there?' In any event, despite the hubbub in Hong Kong, China will get those no-good, democracy-loving, freedom-talking ingrates under control, and get production back on track. You can bet on it.   Hopefully, the old men are learning to leave well enough alone.

<u>Oil</u>

And what about oil? Isn't the world ending because the price of oil has dropped so dramatically, so quickly? And now Iran is pumping, oh my…

Sometimes an alternative perspective is helpful. So I asked my Grandma, who turns 100 this June: "Grandma, can you remember the last time low oil prices were a bad thing?" She didn't even hesitate, "Why, heavens no. That's just crazy." Indeed it is Grandma. Indeed it is.

What Grandma seems to know intuitively, is that low oil prices (ergo, low gas prices) translate into money saved. And money saved here is money spent there.

Yes, I concede that low oil prices are bad for the oil industry, and Exxon, and Chevron, and BP. And it is bad for the portion of the financial industry that has made many loans to oil-related industries that are in danger of default. But what about everybody else?

Who will benefit from low oil prices? Maybe UPS, FedEx, Kroger, Publix, Walmart, Target, every business that ships anything, every person who travels anywhere, and any consumer who buys anything shipped from somewhere else. The list has no end.

So I ask you to think back to your own personal history. When were low oil prices *ever* a bad thing?

That's right—never. Absolutely never.

“But the Saudis and Russians and OPEC are calling for ‘cooperation’”. Forget it; there will be no real cooperation. It’s just lip service. No, my friends, the good ole days for OPEC are gone. Remember you heard it here first: OPEC is dead.

So what does it mean? It means surprise earnings for many companies who have large oil and gas expenditures. It means that instead of that soccer mom spending $50 for a fill-up, she now spends only $25, and gives the other $25 to the kids to blow at the mall. For stocks in general, this is great news.

So why aren’t we hearing about this good news?

It takes time. These things take time to show up. And so *now* you are being bombarded by immediate woes of the poor ‘ole oil industry. But, in time, maybe four months or even less, you will hear more and more of “surprise earnings” and “record profits.” Already, Southwest Airlines has reported record profits, and they are just the beginning.[2]

Why not get out of stocks for now?

I know it seems logical sometimes to just sell everything and get out of the market and “wait for it to act right,” as one client recently suggested, but this is exactly what you don’t want to do. History has proven again and again that no one—and I mean no one—can accurately time the market. We don’t want to be traders; we want to be long term investors. As such, getting completely “out” of the market is never a viable option.

Just as the market drops without warning, it will never announce a big rally. In fact, over the last twenty years, from 1996 to 2015, simply staying invested made all the difference.

If you had invested $100,000 on January 1, 1996 and stayed completely invested in the S&P 500, at the end of 2015 you would have had a balance of $348,346, a respectable 6.44% return, even including the massive losses of the dot.com and real estate busts.

If you had just missed the 10 best days during that period—just 10!—then your balance would only be $173,979, for a paltry 2.81% return.

And if you had missed the 20 best days? You would only have $108,468, practically no return at all![3]

So you see, missing just the best 10 to 20 days in that entire twenty year time frame would have made all the difference. You can extrapolate over decades, and the result is the same.

I know that it is painful to see losses of the magnitude we have sustained, but without downward movement we cannot have upward movement—this is just the reality of investing. No other investment strategy, no other investment option, can change the reality of “no reward without risk.”

[2] http://www.usatoday.com/story/money/2015/10/22/southwest-earnings-record-low-fuel-costs/74376892/
[3] Source: Morningstar Direct as of 12/31/15.

This may very well be a great “trial run” to see how you, personally and emotionally, respond to a significant drop. We stand by our position that this is not another 2008, though we do expect one before decade’s end.

If you are having trouble sleeping or feel unduly worried, I strongly urge you to give us a call so that I can speak with you personally. Anyone can be a great investor when all the markets are going up, but it’s during these down markets when a professional wealth manager can become your closest ally.

About J. Kevin Meaders

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Kevin Meaders graduated from Oglethorpe University in Atlanta with a double B.A. in Philosophy and Political Science, and then obtained a law degree from Georgia State University College of Law, focusing on estate planning and trust law. He has earned the designations of Certified Financial Planner (CFP®), Chartered Financial Consultant (ChFC) and Chartered Life Underwriter (CLU). He holds a General Securities Principal and Registered Representative registration and Investment Advisor Representative registration through Voya Financial Advisors (member SIPC).

About Magellan Planning Group

www.magellanplanning.com

Magellan Planning Group was established in 2000 to provide a service uniquely tailored to the needs of our affluent Atlanta community. We concentrate on *personalized* retirement planning through tri-disciplinary coordination:

- Financial planning with our Certified Financial Planner™ to prepare a retirement plan that takes into account your needs and expectations. We are a fee only asset management firm.
- Estate planning with our in-house Attorney-at-Law to determine and prepare the documents needed to minimize family liability and maximize privacy. (www.magellanlegal.com)
- Tax planning through a relationship with our in-house CPA to manage tax obligations throughout the year and prepare a tax return that takes into account current tax laws. (www.magellantax.com)

Our relationship doesn't begin and end with the preparation of a plan and the appropriate documents. We establish close personal relationships with our clients and their families and maintain those relationships through regular 'check-ups', market commentaries and educational Lunch & Learns.

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