"Does a rising tide lift all ships?"

By Tommy Williams, CFP®

Investors are becoming more discriminating. Trade tensions escalated as the U.S. administration expanded tariffs on Chinese goods last week. However, you wouldn't have known it by watching the performance of benchmark indices. Just four of the 25 national stock market indices tracked by *Barron's* – Australia, Italy, Spain, and Mexico – moved lower.


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However, if you look a little deeper into the performance of various market sectors, you discover an important fact: The market tide wasn't lifting all stocks. It has been said a rising tide lifts all boats. When translated into stock-market speak, the saying becomes, 'A rising market tide lifts all stocks.' In other words, when the market moves higher, stocks tend to move higher, too. That wasn't the case last week.

Barron's reported investors have become more selective:

"We went from a market where everything moved largely together to one where sector fundamentals began to matter more than where the S&P 500 was going...At the sector level, it's apparent that no one has been ignoring tariffs. While the S&P 500 has gained 1.7 percent over the past month of trading, industrials and materials have dropped 2.5 percent, while financials have slumped 2.9 percent, hit by a double whammy of trade fears and a flattening yield curve. Utilities and consumer staples have outperformed, gaining 8.1 percent and 3.5 percent, respectively."

Utilities and Consumer Staples are considered to be non-cyclical or defensive sectors of the market because they are not highly correlated with the business cycle. Defensive companies tend to perform consistently whether a country's economy is expanding or in recession. For example, a household's need for power, soap, and food doesn't disappear during a recession. As a result, the revenues, earnings, and cash flows of defensive companies remain relatively stable under various economic conditions. In addition, the share prices of these companies tend to be less susceptible to changing economic conditions. Defensive stocks tend to outperform the broader market during periods of recession and underperform it during periods of expansion.

As we are all getting older, you might ask yourself how do all these risks affect investors preparing for retirement? Obviously there is market risk, inflation risk, and interest rate risk; however, that is only a partial list of risks for which we must be concerned.

Recently, *T. Rowe Price* surveyed employers that make defined contribution plans, like 401(k) plans, available to their employees. The company asked plan sponsors to rank the risks they were most concerned about for the people who saved in the plan. The top concerns were:

42 percent = **Longevity Risk.** No one knows exactly how long they will live, which makes it difficult for plan participants (and anyone else planning for retirement) to be certain future retirees won't outlive their savings. Longevity risk was among the top three risks listed by 95 percent of plan sponsors.

25 percent = **Participant Behavioral Risk.** "Left on their own, participants tend to take on either too much or too little risk by: failing to properly allocate and diversify their savings; overinvesting in company stock (or stable value/money market funds); neglecting to rebalance in response to market or life changes; and attempting to time the market," explained *T. Rowe Price*.

14 percent = **Downside Risk.** This is the likelihood an investment will fall in price. For instance, stocks have higher return potential than Treasury bonds, and higher potential for loss. When planning for retirement, it's important to balance the need for growth against the need to preserve assets.

With interest rates low, but rising, and the stock market essentially at an all-time high the task of effective retirement investing seems more difficult than in prior years. Now, professional guidance is imperative to avoid the list of known risks involved in order to invest for a comfortable retirement.

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