The Shreveport Times – November 25, 2018

"Of volatility and bubbles"

By Tommy Williams, CFP®

Keep your eyes on the horizon. Motion sickness happens when your body receives conflicting signals from your eyes, ears, and other body parts. I'm told that one way to manage the anxiety and queasiness that accompany the condition is by keeping your eyes on the horizon.

Tommy Williams

The motion of the stock markets has been causing some investors to experience similar symptoms. Surprisingly, the remedy is the same: Keep your eyes on the horizon – your financial planning horizon. A planning horizon is the length of time over which an investor would like to achieve his or her financial goals. For instance, perhaps you want to pay off student loans by age 30, fund a child's college tuition when they reach age 18, or retire at age 60.

When stock markets are volatile, an investor may receive conflicting signals from various sources, which may induce anxiety and queasiness. When you start to worry about the effects of market volatility on your portfolio, remember stock markets have trended higher, historically, even after significant downturns.

For instance, in 2008, during the financial crisis, the Dow Jones Industrial Average lost about 33 percent. It finished the year at 8,776. The drop sparked tremendous anxiety among investors who wondered whether their portfolios would ever recover. Last week, the Dow closed at 25,413.

While stock markets have trended higher historically, there is no guarantee they always will. That's why asset allocation and diversification are so important. A carefully selected mix of assets and investments can reduce the impact of any single asset class or investment on a portfolio's performance. Keep in mind, of course, past performance is no guarantee of future results.

In fact, last week stock markets finished lower. *MarketWatch* reported U.S. stocks moved higher on Friday after President Trump indicated he might not pursue tariffs against China. The tariff battle promises to carry on for awhile with both political and economic implications.

A very simple axiom that I think makes sense is this: If you are an "investor" in the stock market, by definition, you are in it for the long term. If you are in it for the short term you are a speculator (not an investor) and you better know a lot about the stocks upon which you choose to speculate. You probably won't be doing much of that in the college fund or the retirement account.

Reprinted with permission of the Shreveport Times November 25, 2018.

While on the subject of market volatility (and risks of investing) you must sometimes wonder what will cause the next "bubble." Bubbles are not about normal volatility, they are about excesses that create unsustainable economic activity. When the bubble pops we see a major drop typically in everything, not just stocks. Remember the dot.com bubble that popped in 2000, or the subprime mortgage (housing) bubble in 2008? Well, the Department of Education projects one of the potential next bubbles will be triggered by the default of student loan debt. Their October 2017 study of student loan debt and historical repayment data suggests that nearly 40% of student loan borrowers will default within 20 years of entering the repayment phase of their student loans. So, while you're enjoying Thanksgiving leftovers you might give thought to how we might put all these students to work so the odds increase that they will pay off their loans. Remember economic growth cycles do not die of old age, they die of excesses – and the potential for a student loan bubble doesn't get much press these days. However, it is way out there on the horizon, so you are free to enjoy your holiday season!

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful. Performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly. Investing involves risk including loss of principal. This material was prepared in part by Carson Group Coaching.

Visit us at www.williamsfa.com. Tommy Williams is a CERTIFIED FINANCIAL PLANNER™ Professional with Williams Financial Advisors, LLC. Securities offered through Private Client Services, Member FINRA/SIPC. Advisory Services offered through RFG Advisory, a Registered Investment Advisor. Williams Financial Advisors, LLC, RFG Advisory and Carson Group Coaching are separate entities from Private Client Services. Branch office is located at 6425 Youree Drive, Suite 180, Shreveport, LA 71105.

Reprinted with permission of the Shreveport Times November 25, 2018.