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Resolute Connections

March 9th, 2009 marked the bottom of the 'Great Recession' bear market as the S&P 500, a index of US large company stocks, hit a low of 677. Over the next two years it gained 102%, and then over the next six an additional 107%. To date the market has gone up for eight straight years with only minor blips along the way, which is being interpreted by some that this bull market is getting a little long in the tooth and thus a bear market is imminent. *What a Market Top Looks Like* touches on whether we are at the peak, or not, and what action, if any, one should take.

In *The Good and Bad of Millennial Finances* we discuss how this large segment of the population is progressing financially; better than some news reports suggest. *Longer Lives, Here and Abroad,* reviews the changing life expectancy in the developed world, a few surprises here. And even though you may have thought that Greece's financial travails were in the rear view mirror, it is back as reviewed in *Greece's Return to the Headlines*.

If you have any questions about anything we have covered in the articles below, or a specific situation please feel free to give us a call, or visit our website, www.ResoluteFinancial.com.

What a Market Top Looks Like

The current bull market in stocks reached its 8th anniversary on Thursday March 9th, and for about the last four years, professional investors and financial planners have been scratching their heads. The markets have gone up and up and up, and we all know that they won't go up forever, which means there's a correction looming somewhere on the horizon.

The problem is that the wisest professionals generally know what a market top looks like—and what it doesn't. For most of those eight

years, investors were constantly looking over their shoulders, waiting for the next shoe to fall, being very cautious about their stock allocations. As long as that generalized anxiety persisted, it was unlikely that we would see the exuberance and overconfidence that typically precedes a major market decline.

The markets generally top out when the average person starts feeling like he or she is missing out on future returns. Suddenly money that has been on the sidelines for years starts to flow back into the market, causing it to rise faster than it ever did during the buildup early years of a bull market. You start to see pundits, touts and market prognosticators get really enthusiastic. Nobody could see any sign of that swell of overconfidence — until now, with what Wall Street has been calling The Trump Trade. The trade means that people everywhere are investing in anticipation of lower corporate taxes and fewer regulations.

An excellent description of how to spot a market top was published on the MarketWatch website, entitled “7 Signs We’re Near a Market Top, and What to Do Now.”

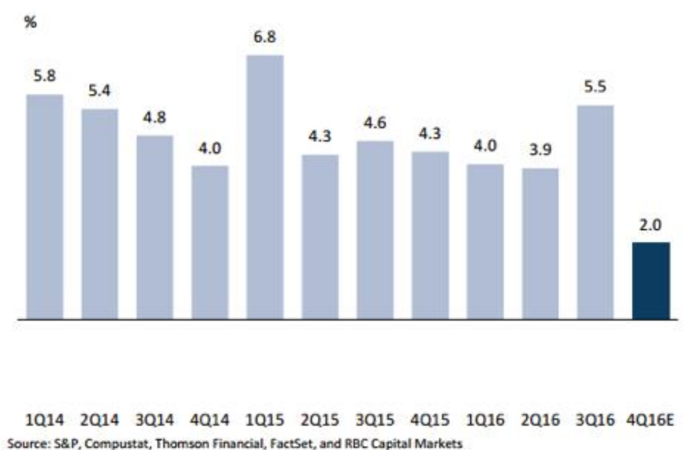
What are the signs? The first one is when you see retail investors start pouring money into stock mutual funds, in fear of missing out on another year of growth. Second: the survey of professional investors starts showing a low proportion of bears to bulls, basically meaning that the bear market prognosticators (and there are some who nearly ALWAYS predict one) start to give in.

Third, market sentiment indicators like the VIX index (that tells us what traders think of future market volatility) start to look complacent. Fourth: you see record price/earnings ratios, which means people are ignoring value and simply expecting future growth. Fifth: investors are finally starting to forget the last market crash, and have stopped looking over their shoulders. Sixth, the article says that the Nasdaq index of mainly tech stocks will begin a bull run. And seventh, investors reach a tipping point where greed outweighs fear. Instead of fearing a market pullback, they fear missing out.

Does any of this look familiar when you look at today’s markets?

To many professional investors, the signs are everywhere that the investment markets have finally reached those last heady stages of a bull market, when prices begin to soar faster than they ever did in the run-up. You can’t expect a major, painful bear market until those conditions have been met, and we’re finally meeting them now. You’re going to hear that

earnings per share for American corporations have been beating expectations in the latest quarter, but as the chart shows, the margin has shrunk.



With all this wisdom and insight, what's the best course of action? Trying to time the market is never a good strategy. Even though valuations are high right now, there is no good reason, with all the euphoria, that they won't keep getting higher—and the euphoria could last days, weeks, months… or years. If you get out now, there's a good chance you'll miss the most exciting part of the bull market.

More importantly, if you get off of the roller coaster and do manage to miss the next dip, how will you know when to get back in again? Bear markets have a habit of suddenly reversing themselves, and it's possible that by the time you feel confident that the market is finally on an upswing, you'll be buying at prices higher than what you sold for.

A better possibility is to quietly start to raise the cash allocation in your portfolio, with the idea that when the bear market finally does manifest, you'll have money to invest at bargain prices. This isn't for the faint-hearted, however, since it's tough to miss the last stage of a roaring bull, and even tougher to re-invest when everybody else is selling out.

A safer way to weather the storm is to simply hang onto the restraining bar in your roller coaster seat and endure the bumpiest part of the ride. If you believe that stocks will eventually recover, as they always have in the past, then eventually you'll be looking at gains again while a lot of your friends and neighbors will have sold near the bottom in the last stages of a bear market capitulation.

Most importantly, you should recognize that the best, most seasoned market watchers can and will be way off on their timing. You can't rely on any of us to know the future. That MarketWatch article that talked about the seven signs of a market top? It advised people to start edging out of the market as soon as possible, because the red flags, it said, were everywhere.

And it was published in March, 2014.

The Good and Bad of Millennial Finances

Millennial Americans are saving their money at a higher rate than their Baby Boomer counterparts at a similar age. Research from the Transamerica Center for Retirement Studies shows that nearly three-quarters of Millennials are saving for retirement at an earlier age than past generations. Half are putting away 6% of their income or more—a statistic that makes Millennials the best cohort of savers since the Great Depression, despite having to carry record high levels of student loan debt. Those who participate in their workplace retirement plans are saving 7% a year, on average.

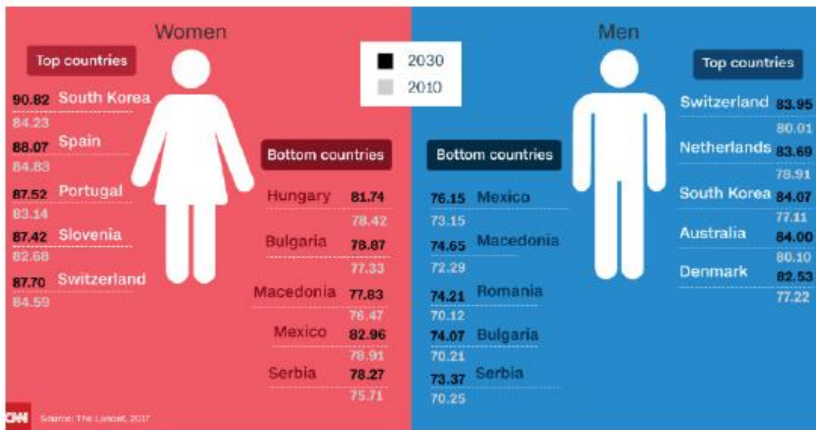
Alas, Millennials are not doing an equally good job of investing. The research suggests that many younger Americans are frightened and confused by the topic of investing, and keep their money in their bank accounts. That's a problem, since low interest rates essentially drop the return on investment to 0% a year. In the Transamerica survey, 25% of Millennial respondents said they weren't sure how their retirement savings were invested, and, when they were prompted to check, they reported higher allocations to bonds, money market funds and other low-return investments than their Baby Boomer or Generation X counterparts.

There are a variety of prescriptions for the problem of being under-invested, which is much more easily fixed than bad savings habits. Millennials need to be educated about investing—a subject which is not taught in high school or college. They need to become more comfortable with risk, understanding that, although markets do go down from time to time, they have always recovered and beaten their previous highs.

Longer Lives, Here and Abroad

For years, the U.S. life expectancy was among the longest in the world, a natural byproduct of the fact that the U.S. is wealthier, per capita, than other nations. Indeed, a research report in the medical journal The Lancet, projects that between now and 2030, women in the U.S. will live

an average 83.3 years (up from 81.2 today) and men an average of 79.5 years (up from 76.5 today).



The report analyzed data on mortality and longevity patterns from 35 industrialized nations, both high-income and emerging. American longevity increases are surely encouraging, but the more interesting part of the study is how the rest of the world is catching up and even surpassing American seniors. South Korean women are projected to live to an average age of 90 years in 2030, and women in Spain, Portugal, Slovenia and Switzerland will see average lifespans above 87. South Korea, the Netherlands, Australia Denmark and Switzerland will all see their male citizens survive, on average, beyond age 80. Gains in Mexico and the Czech Republic will put lifespans there, for both men and women, to levels comparable to the U.S. by 2030.

Why is the U.S. not progressing as fast as other countries? The report and some of the research around the report note that the U.S. has high obesity rates and our diets are not as healthy, per capita, as some of the leading nations. South Korea has invested in childhood nutrition and medical technology, and although the U.S. spends more of its total GDP on healthcare than any other nation, the quality of health tends to be top-heavy; the richer Americans can afford much better care than their less-wealthy counterparts.

Greece's Return to the Headlines

As you can see from the graph, the nation of Greece, once the subject of almost daily speculation about the viability of its government bonds, has pulled its economy out of a disaster into a muddle. No doubt, you got tired of hearing about Grexit scenarios and all the times when the European Central Bank and the European Stability Mechanism came to the rescue.

Today, Greek unemployment stands at an alarming 23%, yet somehow the country has eked out a budget surplus, counting debt-interest costs, of 0.5% of GDP in 2016. So the country is finally out of the woods, right? Alas, Dutch and German creditors are now demanding that the Greek budget surplus be raised up to 3.5%, a level which would certainly push the nation into depression. Meanwhile, French, Dutch and German officials are afraid that if they permit the ESM to refinance Greece bonds at lower interest rates, it would embolden anti-EU politicians and potentially break up the union.

The resulting standoff, once again, threatens a Greek default and the possibility of a Grexit. Expect to read all about it in the coming months, and experience deja vu all over again.

Source:

Bob Veres: Inside Edition Newsletter

For more information on these topics or for a free consultation, contact Resolute Financial, LLC at (978) 463-8771 ext. 1003.

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