INVESTMENT INSIGHT

2017
SECOND QUARTER

LEGACY WEALTH MANAGEMENT®

The current market recovery is the third longest in history. There are several observations that people, both individuals and professional investors, have been making lately as a result. "This market recovery is getting long in the tooth" or, if you like baseball, "this recovery has to be in the late innings" meaning the game is about to end. People have also been excited about the "Trump bump", the fact that the markets have been climbing ever higher since the election, but are now concerned about whether the "bump" can last since President Trump and the Congress seem unable to move past typical Washington gridlock.

It has also been said that "bull markets don't die of old age". Based on what we are seeing in the markets, that seems to be the case. This bull has never run very fast, so he seems to have the ability to run far. Companies continue to do well, with 75% of companies included in the S&P 500 index beating their earnings estimates in the most recent earnings reports. Companies beat estimates by approximately 6%, meaning that if they expected $100 in earnings, they actually earned $106. Factset (a research firm that we utilize) reported "For Q1 2017, the blended earnings growth rate for the S&P 500 is 14%. This growth rate marked the highest (year-over-year) earnings growth rate for the index since Q3 2011 (16.7%)." The energy sector has been recovering over the last year after significant losses from falling oil prices the year before, so strong earnings growth is not surprising, but growth has not been limited to the energy sector.

Another article we saw recently cited many of the positive numbers discussed above and recommended investing as if none of the President's proposals get enacted. While some of the current increase in market price is likely tied to the hope for lower taxes, infrastructure spending, etc., the point is that companies (markets) are not so wildly overpriced that they will collapse if these positive economic policies don't come to pass. As we have stated before, even if some of President Trump's policies do get enacted, they will impact business and the economy over a period of years, not months. Likewise, if they don't pass, stock prices may fall in the short-term, but will likely recover over time as the business of the country continues.

As part of a well-diversified portfolio, international stocks continue to be important. The consensus among experts that we listen to (JP Morgan, Charles Schwab and others) is that Europe is recovering nicely and should continue to do so. France's election went in favor of the candidate who supports the European Union and the Netherlands also voted against the far-right populist/anti-Euro candidate. These election results argue against further Brexit-type concerns in Europe that could lead to political and economic instability. The rising dollar coupled with concerns around Brexit and other European politics led international markets to struggle last year. With the dollar now declining a bit and with election results concluded, international investments have done quite well so far this year. While the U.S. markets are up between 5-9%, international returns are currently 15% or more (excluding Japan, which is still up 10.5%).

Finally, we want to address some of the concerns that naturally occur as a result of the many recent terror attacks. What impact might those have on the markets, particularly if the magnitude of the attacks increases? If you take in isolation the attacks of 9/11, the markets initially reacted negatively after being closed for several days and fell approximately 15% in the two weeks after the attack. However, within two months the markets had recovered all of that loss. One can also look to the 1960's for a prolonged period of turmoil in the U.S. and around the world. The Bay of Pigs kicked the decade off in April '61 followed shortly by the Cuban Missile Crisis in October '62, President Kennedy was assassinated in November '63, Vietnam started in earnest for U.S. forces in March '65, protests against the war were frequent and violent as were so many of the events around the civil rights movement, including Dr. King's assassination in April '68. This was not a calm decade in our country or around the world, yet the stock market as represented by the S&P 500 index earned just under 8% per year from January 1960-December 1969.

In summary, there are certainly things to be concerned about in the world today and some of those things could have an impact on your portfolio. As we pointed out in our Investment Insights from the first quarter of 2016, volatility "is part of investing in the markets and returns ranging from the negative to the positive should be expected." Markets are, however, incredibly resilient over the long-term, whether in the face of political uncertainty, international economic uncertainty, or the threat of instability/terrorism here at home or abroad. This market may be in the "late innings", President Trump may or may not find a way forward with Congress to enact some of his policies, and terrorist attacks may continue. But while those are all worrisome, people all over the world continue to go about their daily lives, which means that they need products and services that businesses strive to produce at a profit. Those profits ultimately accrue to you, the investor, in the form of positive market returns over time.

This Second Quarter
Investment Insight
has been written by Legacy's
Managing Director
Duncan Miller.

LEGACY WEALTH MANAGEMENT | Right by you.

1715 Aaron Brenner Drive, Suite 301
Memphis, TN 38120
Phone#: (901)758-9006 Toll Free#: (888)326-8554 www.legacywealth.com