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Quick Thoughts:

Have you ever met or approached a professional at a social event and been tempted to ask a personal question that relates specifically to your circumstances?

I know I have.

Whether it's a physician, attorney, or CPA, when I am in need of assistance, I benefit from receiving additional insight from the experts. Of course, I typically shy away from any direct questions, but the temptation sometimes arises.

While I am reluctant to pry a bit of free information from someone who has painstakingly developed their specialized skill set, I find that I'm very open to discussing the markets and investing with folks I meet when I'm out and about.

For starters, I truly enjoy what I do and I receive a tremendous amount of satisfaction assisting those who seek my advice both in planning and investing.

However, there is one topic I shy away from–and it's one I get questions about quite often: Where do I believe the market is headed?

Long term, stocks are an integral part of most portfolios, and tend to go only one direction over that time period....Up. But many folks who ask me for my opinion want to know the market's direction over a much shorter period.

For example, what's going to happen after the U.K.'s Brexit vote? Or how will stocks perform before and after the election? Will interest rates go up this year?

I certainly understand the inquiry. Investment advisors have their fingers on the pulse of the market and the economy, and investors clamor for certainty in an uncertain world.

I generally reply to these short term inquiries with the following response "In the short term? Well they will go up and down". In the long term we know there is no greater wealth accumulation vehicle than a diversified portfolio of stocks, bonds, and real estate.

Although I did not expect what happened in Europe to have a lasting impact at home, I was surprised by the sharp and immediate bounce in stocks and subsequent all-time highs in the Dow Jones Industrials and the broader-based S&P 500 Index.

In some respects, the political earthquake in the U.K. shook up our markets for just two days before cooler heads prevailed and shares began an upward ascent.

While I have reiterated in the past that I have no magic crystal ball (and let me remind you, neither does anyone else), let me take a moment to explain why our approach leans heavily on diversification and eschews market timing.

The Yes, No, and Maybe

Irving Fisher was called "the greatest economist the United States has ever produced" by none other than Milton Friedman, who won the 1976 Nobel Prize in economics. Yet, Fisher's record is stained by his 1929 remark that "stocks have reached what looks like a permanently high plateau." Making matters worse, his comment came just three days prior to the crash (*CNBC*: "Spectacularly Wrong Predictions").

As a self-proclaimed history buff, I study the markets constantly, and often turn to history to share with clients that men much smarter than I, get it incredibly wrong in the short run.

In 1979, the respected periodical, Business Week, ran a cover story entitled, "The Death of Equities." The article included this line, "The old attitude of buying solid stocks as a cornerstone for one's life savings and retirement has simply disappeared…The death of equities is a near permanent condition." (*Forbes*: "6 Doomsday Predictions That Were Dead Wrong About the Market").

Three years later, stocks went on an 18-year bull run.

Bill Gross is not a household name for many, but in the financial world he is synonymous with bonds. Yet, his expertise in fixed income didn't prevent him from forecasting a drop in the Dow to 5,000 in September 2002 (PIMCO: Dow 5,000). One month later, the Dow bottomed at 7,286 (St. Louis Federal Reserve).

Just a few days ago, I spotted two conflicting headlines on a prominent business website (MarketWatch): "S&P 500 hasn't done this in 40 years—and it's a bullish sign," and "These telltale market indicators suggest stock prices are topping."

Well, which one is it? I view it as noise, simply put, very intelligent individuals don't always get it right, in fact in the short term they are often very wrong.

But what about the consensus? Would that offer solace? Not really.

The Bespoke Report reviewed the recent history of Wall Street predictions. Since 2000, the consensus among Wall Street analysts has never projected a decline in the stock market for that particular calendar year. Yet the market fell in five of those years (*New York Times: "*One Market Prediction Is Sure: Wall Street Will Be Wrong").

While I could continue with the anecdotes, I believe I have demonstrated that market timing is ultimately an exercise in frustration and foolishness and is likely to be a detour that takes you further from your financial goals.

An all-time high–how should I react?

During July, the S&P 500 Index finally eclipsed its prior all-time closing high set back on May 21, 2015 (St. Louis Federal Reserve).

By itself, a new high isn't a reason to sell.

Since the bull market started in 2009, there have been 45 record highs for the S&P 500 Index in 2013, 53 in 2014, and 10 in 2015 (LPL Research). Since topping the prior high on July 11, the S&P 500 has gone on to close at six more highs during the month (St. Louis Federal Reserve).

Again, by itself, a new high isn't a reason to go to cash.

Table 1: Key Index Returns

	MTD %	YTD %	3-year* %
Dow Jones Industrial Average	+2.8	+5.8	+5.9
NASDAQ Composite	+6.6	+3.1	+12.8
S&P 500 Index	+3.6	+6.3	+8.9
Russell 2000 Index	+5.9	+7.4	+5.4
MSCI World ex-USA**	+4.9	-0.2	-0.9
MSCI Emerging Markets**	+4.7	+10.0	-2.7

Source: *Wall Street Journal, MSCI.com*
MTD returns: Jun 30, 2016—Jul 29, 2016
YTD returns: December 31, 2015—Jul 29, 2016
*Annualized
**in US dollars

What I do counsel is to avoid emotionally based decisions. In my experience, they rarely work.

When fear is high, some investors become uncomfortable with the equity allocation in their portfolio. This may even occur during a garden-variety correction that lops around 10% off the major indexes.

If this is the case, we may need to revisit your strategic asset allocation, especially if your tolerance for risk has changed. In addition, changes in your personal situation may warrant updates to your financial plan.

The Rally

It's somewhat counterintuitive, but a post-Brexit world may actually be helping stocks in the U.S., as nervous cash in Europe seeks safety in the U.S.

But it's not all gloom. While the U.S. economy is expanding at a subpar pace, it is growing, and the consumer is leading the way (U.S. BEA), which supports corporate earnings.

Speaking of earnings, once again Q2 earnings are topping a low hurdle (*Thomson Reuters*). More importantly, analysts are cautiously forecasting that the four-quarter earnings recession appears set to end in the current quarter.

Meanwhile, let's not discount the positive impact from strong corporate buybacks of shares. Over the last 12 months (ended March 31), S&P 500 companies shelled out a record $589.4 billion to repurchase shares of their own stock, according to S&P Dow Jones Indexes.

Undoubtedly, there is plenty of economic uncertainty, which discourages firms from making significant investments in new factories and equipment. But it's not discouraging companies from trying to support share prices via buybacks.

Finally, a cautious Fed has been a plus for equities simply because low interest rates create less competition for stocks. If we were in a recession and profits were sliding, low rates would likely do little to support equities, in my view. But again, the economy is expanding, albeit modestly.

What to do Now?

I recognize that we are in an uncertain period. As the economic recovery enters its eighth year (National Bureau of Economic Research), the expansion is no longer young. It's been a substandard economic recovery, global uncertainty is high, and we are in an unusual election cycle.

Equity prices seem high based on historical valuations, and bond yields are anemic at best. It's a difficult time as an investor to be excited about any asset class. However, remaining in a well-diversified Strategic asset allocation coupled with our Tactical allocation can provide the potential to produce very favorable risk adjusted returns.

The market today remains a place for experts as the rising tide will not lift all ships this time around. Proper allocation remains critical to weather any storm ahead, but also to capitalize on opportunities that briefly present themselves.

As I've mentioned in previous newsletters, we will eventually enter a recession, and recessions have historically brought about a downturn in stocks. I don't know when it will happen, but it will. It's an inevitable byproduct of a free market economy.

While declines in the major averages that exceed 20% can be unnerving, they have always run their course historically, setting the stage for another upward cycle that takes shares to new highs. My job remains to protect your downside risk while capturing as much of the upside as we can, no one wants the full volatility of the stock market, and so our strategic and tactical proprietary asset management strategy aims to both protect and grow.

Thank you very much for the trust and confidence you've placed in my team and our firm.

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