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THE INCREDIBLE ROLLER COASTER CALLED THE MARKET

By Fred Dunbar

As I sit down to write this article, we are celebrating our nation's 243rd birthday. I am so thankful to live in the greatest country in the world. Amazingly, America has just entered the longest economic expansion in U.S. history, now at 121 months. It is a time of economic growth, which is the cost of goods and services produced by our economy over time. It is measured as the percentage increase in real gross domestic product, and it has an effect on the stock market. During this time frame, we have had numerous market corrections of 10% or more, but we have also had numerous market recoveries. This might remind some of the classic 1987 film, "No Way Out," that helped make Kevin Costner a star. This suspense film has as many twists and turns as our markets.

This year the S&P 500 returns are breathtaking for the first two quarters, up 18.54%. Maybe now is the time to sell your entire portfolio. If you had done that on June 30, you would have been up double digits for the year. It sounds good and makes great conversation, but two things would have to happen. First, you would have to be 100% invested in the S&P 500; and more important, you would have to pull the trigger and sell all of your stocks. Easier said than done. Chances are, neither of those things happened**.**

Frankly, this year has been more like visiting one of the neighboring shore towns and riding on a roller coaster. A six-month return of 18.54% is outstanding. The month of June, the S&P was up 7.05%, and everyone was elated. However, the S&P was down 6.35% for the month of May, and most were deflated. Are you the type of person who can ride the market with no worries? Or are you like some who get off the roller coaster and disappear underneath the boardwalk, possibly to lose their lunch?

Here is a tale of two hypothetical clients. We have Theodore Cleaver (a fictitious name), who we will call Beaver. He asked if he should sell everything, stay in cash for the balance of the year, and enjoy the plus 18% gain this year? It was a reasonable question. When asked what he was talking about, he quoted the S&P return year to date, which every news channel has broadcast. Funny thing, Beaver is fairly conservative, with 45% invested in stocks and the balance in cash and bonds. When the stock market has gone down, the cash and bonds provided a cushion in a down market.

The Beaver was up just over 8%, year to date through June 30. After discussing this, he was a little deflated with his return. For a capital preservation portfolio, it was a good return, not just for 6 months but for a full year. When Beaver was with his buddy Clarence Rutherford III (Lumpy) last weekend, Lumpy was telling him that that's what he was going to do. Lumpy was bragging that he was up more than 19%. Was he really up that much? Who knows? I have usually found that people who boast about their investments tend to embellish their market return results.

If I had been there for the conversation, I would have congratulated Lumpy. I also would have invited him to have coffee with me and to bring his June 30 statements. Chances are, Lumpy might have rejected the offer.

On the other side of the coin, we had a call from Oscar Madison (another fictitious name), who wanted to do the complete opposite. Oscar has always been a gambler and is invested in 100% equities (not just the S&P 500). He wanted to move the cash from his savings into the market. When asked what his thinking was with the market at an all-time high. He felt he could make another 10% or more on that portion of his portfolio over the next 6 months based on what the market just did. He was told that was not reasonable, and he should keep that money in his money market. Oscar, who is retired, needs money from time to time. He said that the markets do go down, but they always come back. The rationale is that he will need cash, and if the market goes down (and it will), we'll have to sell some stocks, which would be at a loss. Oscar agreed and said he got caught up in the numbers. It is easy to do.

When was the last time you looked at all of your investments? Over the years, I've encouraged you to make a plan and stick to it. Many feel they can time the market. They try to sell at the top and buy on the dips. If you are that person, congratulations, but chances are 99.99% cannot do it. This is human nature. Most are afraid that as soon as they sell, it will go up.

Investing should be tied to what you're hoping to accomplish. This can be as simple as building an emergency fund (everyone should have one); planning for your children's or grandchildren's education; trying to buy your first home or maybe a new boat; or getting to the end of the rainbow – retirement.

NOW could be the time to rebalance your portfolio. Chances are the stock portion of your portfolio has done very well, and your portfolio is now out of balance. Take some profit, and put it in the underperforming bonds. Do a holistic approach when you rebalance your investments. Look at your retirement plans – IRAs, 401(k), 403(b) – as well as your brokerage account, mutual fund accounts and bank accounts. If you work with an adviser, chances are they have already done this. If you are like Lumpy and do your own investing, go online and look for an investment allocation that matches your risk tolerance.

Almost every investment company has allocation models for you to view. A simple strategy is you can match the percentage of bonds to your age. If you are 60, then your bond and cash position might equal 60%. It is not perfect, but it is a start. Portfolio allocations will show the percentage in stocks you might want to invest. It will also show the percentage of large, medium, or small cap stocks to own and what percentage of domestic, international, and emerging markets to own. That is the easier part. Now you have to simply decide on what and where to invest.

One last thing, make sure your beneficiaries are up to date for all of your accounts, including any life insurance you own.

Now that you have reviewed your portfolio, relax and head to the beach. Grab your chair, book, and favorite beverage, and don't forget the sunscreen. Make it a super summer.

The preceding are hypothetical examples and are for illustrative purposes only. They do not constitute a recommendation as to the suitability of any investment for any person or persons having circumstances similar to those portrayed, and a financial advisor should be consulted regarding your specific situation.

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