



It's Called Uncertainty for a Reason

June 8, 2017

As we're sure you've noticed, there's a whole lot of hoopla in global and domestic politics. Strangely, the stock market seems highly nonplussed by the activity, and even seems to be ignoring it. Why? Because, for the most part politics don't matter in the long run. Take Y2K – although widely anticipated, nothing happened. Yet on March 24, 2000, the tech bubble 'popped' for no apparent reason. Brexit? Much ado about nothing. US Presidential election? Not only were the pundits wrong about the race, they were wrong about the effect. Lately we are hearing questions about the "What if(s)?" "What if something comes out about Russia?" "What if we get out of NAFTA?" "What if we close our borders?" Lots to think about and lots to talk about over cocktails, but short-term does not make a long-term strategy.

Here are things we do know. We know that the 20 year period ending 12/31/16, the S&P 500 Index had a total return based on price change of about 8.4%. That is from 01/01/97 to 12/31/16. Anything happen during that period? Let's see:

- Y2K
- Tech bubble
- War
- 9/11
- Presidential scandal
- Real estate bubble
- Great recession
- Brexit

All that and not to mention three consecutive years where the market return negative results from 2000 through 2002 with losses of 9.1%, 11.9% and 22.1%, respectively. So a couple of major crashes, some wars, some scandals and you made about 8.4%. Miss the 10 best days and you made about 3.0%. That's 10 days out of 20 years!

So how do you catch the 10 best days? Two ways:

1. You use a magic crystal ball and predict the future and get in right before it goes up and get out right before it goes down; or
2. You stay in.

Incidentally, if you missed the 30 best days, you actually lost about 3.4% and if you missed the 60 best days, you were even further in the hole.

Bottom line: we think the market is a bit irrational right now – high prices/low volatility despite many prospective reasons to the contrary. However, we don't want to miss an 11% gain waiting for a 5% decline.

We watch it every day, we fret over the recipe. We know there will be opportunities to rebalance. But it's like riding a bike – you need to keep your balance to move forward.

Stay tuned,

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6.8.2017

FROM THE LAB

