We are often asked how we develop our view on the market. With valid points being made on every side of an argument and the 24/7 pace of information flow how can one possibly sift through it? We start with the objective data such as earnings, economic metrics, and so forth. From that we can derive a value, or anchor point, we believe the market should be trading at. As with individual stock analysis we then need to layer on the subjective aspects of market sentiment. This tends to be more art than science. Of course, we cannot predict tops or bottoms, but this approach helps us with our allocation recommendations, or put another way how much to have exposed to the “market”. Our contrarian bias also comes into play as we tend to be more skeptical or somber when everyone else seems euphoric and we tend to be more active buyers when others are most interested in selling…but not always.

We would classify the current market as confused at best and schizophrenic at worst. Daily swings of hundreds of points have become common. Individual names drop 20% one day to increase 20% the next. Our letter next month will discuss some mechanical reasons for this mania, but for purposes of this note suffice it to say that these conditions make developing a view difficult. Setting aside the broad geo-political events in the world at the moment, the economic issues alone are numerous. The Fed seems uncertain about the pace of rate increases and the resulting impact on the economy. The Chinese economy is slowing and sending ripples throughout the rest of world. The European debt and economic issues have been pushed off as opposed to being dealt with…a lesson they may have learned from our leaders as our own debt, pension funding, and Social Security problems mount. After all, it seems that every time a government official or central bank announces another easing program or puts of a debt obligation the markets reward them. Whether it is blissful ignorance or willful blindness it seems markets can go up much longer than the data would indicate or anyone anticipates.

In this context the above mentioned market schizophrenia is a little more understandable. It seems to us that most market participants simply do not want the party to end…even though the data seem to indicate it should. This would explain the market surges after announcements that central banks are easing more or when interest rate increases are put off. We have noticed that each subsequent announcement along these lines seems to result in shorter and shorter periods of euphoria. Slowly, it seems that the somber realization is starting to sink in that eventually the party may indeed end. We see little benefit in trying to be the last group in attendance.

It is against this backdrop that our more cautious view has developed. It might be noticed in larger cash balances, smaller position sizes, or less exposure to certain assets or sectors. Our efforts to hedge, or reduce, the potential of larger losses should markets begin to focus more on risk than on return may not be beneficial should the party stay active longer. In the near term this can be frustrating and seem like lost opportunity. Of course, everything is crystal clear in hindsight, but without that advantage our efforts will continue to focus not on return alone, but on how much risk is required trying to get that return. Risk and return are rarely discussed together but they should be. As always, thank you for your trust, your time, and your business. Please call on us at any time.
While we are certainly being cautious in the short term due to all the uncertainty, it is important to remember over the mid and longer terms, that corrections like the one we are in now present opportunities. The chart shows market returns from 1980 to 2015. The blue bars illustrate the annual return for the S&P 500 while the red dots illustrate the maximum intra-year percentage decline for each listed year. We have three major takeaways from this chart. First, the S&P 500 posted a positive annual return for 28 of the 35 years listed, or approximately 80% of the time. Second, even in years where the maximum intra-year decline is over 10% the index has rebounded and posted positive results. Third, intra year declines of 8, 9 or even 10% in any given year are not uncommon.

As always, past results do not guarantee future returns, but we use this information to make educated and logical decisions about how to react to volatility. The benefit of being cautious now is having cash on hand to deploy as companies continue to drop to prices that are attractive entry points. This is how we try to avoid the short term risk, then when we try to take advantage of the opportunities created by making purchases at lower prices.
Financial Planning Webinars

Beginning in February we will be offering financial planning webinars utilizing Microsoft LiveMeeting and Morgan Stanley’s conference call capabilities. Our first two topics were chosen as they seem to be subjects our clients and prospects are most interested in learning about, Social Security Benefits and Medicare.

Below are the presentations and the corresponding times and dates:

**A Closer Look at Your Social Security Benefits**
Wednesday, February 10th 5:30 – 6:30pm CST
Presented by: Jo Fogleseong, CFP®, Regional Vice President, Prudential Financial CRC1401465

**Planning for Health Care in Retirement: A guide to covering your medical expenses**
Thursday, April 28th 5:30 – 6:30pm CST
Presented by: David Muscatello, CRPS®, Regional Vice President, Fidelity CRC1401472

**Prepare for a Healthier Future: The value of long-term care expense planning**
Wednesday, June 15th 5:30 – 6:30pm CST
Presented by: Nicole Hanson, ChFC, CLTC, Regional Sales Director, Lincoln MoneyGuard CRC1401484

We will be sending out individual invitations to each of the webinars that will include the link to the meeting and dial in information. Please make sure to test the LiveMeeting link on your personal computer or tablet before trying to log into the webinar. We have instructions on how to ensure the program works but do not have the ability to troubleshoot after that.

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