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1st Quarter

INVESTOR INSIGHT

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Don't Panic …The real truth about Stock Market retreats and recoveries

The stock market faced a slew of bad news last month, particularly within the tech sector that has been the market leader during this long Bull Run. From Facebook's lack of oversight of data misuse, to a fatal accident involving a self-driving car, to the tweets showing that President Trump has Amazon in his cross hairs, the news has been almost unrelentingly bad. Oh yes throw in the fears of a damaging trade war with China and a perception of a more hawkish Fed, and it is not surprising that stocks slumped badly in March. There is definitely a whiff of panic in the air, with several analysts claiming we are already in the early stages of a new bear market. Not so Fast!!! I feel that lost among the headline worries of the day are some very strong fundamental data. However, having said that let's assume I am totally wrong and we are headed into a nasty bear market.

Since the end of World War II, nearly every six months the S&P will decline 5% or more. But in 85% of those declines the S&P got back to break even in an average of 4 months or less. Also since World War II there have been 56 PULLBACKS (a decline of 5% to 9.9%), 21 CORRECTIONS (a decline of 10% to 19.9%), and 12 BEAR MARKETS (a decline of 20% or more). This averages out to there being a PULLBACK every year, a CORRECTION every 2.8 years and a BULL MARKET every 4.8 years. The 56 PULLBACKS dragged the market down by an average of 7% and did so in about a 1 month time period. However, the S&P 500 took only an average of 2 months to recover everything that was lost. In regards to the 21 CORRECTIONS, the S&P took only about 4 months to recover totally from these losses of 10% to 19.9%. And finally in regard to the 12 BEAR MARKETS, the S&P took an average of only 14 months to recover from 20% + losses.

Since no one is able to consistently predict when a PULLBACK, CORRECTION or BEAR MARKET is going to start and end, an investor is much better off taking advantage of these declines and buying more stocks rather than running from stocks. Furthermore since 1928 the average Bull Market has lasted 54 months and has increased 153%. The average Bear Market has lasted 25 months and has decreased only 45%.

Now let's head back to the strong fundamentals I mentioned earlier in the article:

EMPLOYMENT

Initial claims for unemployment continue to decrease, hitting a 45 year low at the end of March. New job openings jumped 11% in January and just as important new job openings remain in excess of new hires.

ECONOMIC GROWTH

Last year's fourth quarter GDP was revised to 2.9%, and the final sales were up a robust 4.5%. The forecasts for the first quarter of 2018 are 1.8% to 3.1%; regardless the underlying indicators of economic strength are mostly positive. Durable good orders are up 8.9%, industrial production up 4.4%, and retail sales up 4.0% all have exhibited strong year over year gains in February. The Conference Board's Leading Economic Index rose 0.6% last month, despite the weak stock market. Also the Chicago Fed Activity Index hit a five-month high in February.

EARNINGS

S&P 500 earnings for the fourth quarter of last year jumped 21% from a year earlier, as 75% of firms beat their earning estimates and 76% beat their sales targets. The forecast for this year's quarters are similarly robust: 24%, 26%, 28%, and 24%. Just as important is that as more data comes in these forecast are remaining robust.

INFLATION

Inflation fears remain just that-FEARS. The PCE index for February was 1.7%, just 0.1% higher than January and still below the Fed's 2.0% target.

To summarize the fundamentals remain very solid and the likelihood of a recession is very low and consequently the likelihood of a Bear Market is also low. Bank of America Merrill Lynch analysts further solidify this. They have a list of 19 indicators that occur before a Bear Market. When 80% of these indicators have been tripped, a Bear Market is just around the corner. As of now only 68% has been tripped. This may sound high but actually based on past history this percent is usually reached about two years before stocks have peaked.

In February the market hit key low points, those lows were tested again in March and I suspect that we have not seen the completion of this current correction. Consequently going forward there should be more volatility as the market regains its footing. I do anticipate that the market will end the year higher so I have no inclination to decrease our equity exposure.

JoAnne and I want to thank you for the opportunity to manage your portfolios and to be a part of your financial planning. It is truly an honor and a blessing. I am always available for any questions or concerns, so please do not hesitate to call me.

God Bless You

Seamus & JoAnne

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