IS IT TIME TO SELL IN MAY AND GO AWAY?

Stocks acting weary 10 years into this bull market

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We recently celebrated the 10-year anniversary of this bull market with the S&P 500 more than tripling from its low in March 2009 – and it looked like we’d be off to the races once again. But trade wars resurfaced, markets trembled and you might now be asking yourself what, if anything, you should do right now to protect your portfolio. It’s best to begin your evaluation with an understanding of the current state of affairs.

Let’s start with some positives:

• The S&P 500 has rocketed more than 300 percent since hitting its low on March 9, 2009. That’s an increase of approximately $21 trillion according to S&P Dow Jones Indices.

• Employment and investor sentiment figures have hugely improved over the past 10 years. So much so that you may have forgotten how nervous and uneasy you felt during the depths of the financial crisis.

• Interest rates remain low and earnings growth strong, even if less robust than recent quarters.

On the negative front:

• To state the obvious, nothing lasts forever and this bull market is now the longest in U.S. history. Many experts aren’t calling for a bear market or even a recession this year. However, each passing day brings us closer to the inevitable.

• Risk assets had trended higher through much of 2019, but higher U.S. tariffs on Chinese goods and increased skepticism for a deal have weighed heavily on stocks. Investors are skittish and volatility has jumped.

• We’re heading into summer, an historically challenging season for stocks as shown below.

Should you sell stocks this May and go away?

| S&P 500 |
|------------------|--|--|--|--|
| Since 1928 | Since 1945 | Last 50 years | Last 30 years | Current bull |
| November-April | 4,662% | 8,671% | 1,851% | 504% | 129% |
| May-October | 185% | 102% | 55% | 43% | 24% |

Source: Bespoke Investment Groups as of 4/29/2019

You can find ten more surprising stock market indicators, ranging from women’s skirt lengths to gross sales of aspirin, as compiled by CNBC here.

What can investors do?

So should investors sell their stocks and shift to the sidelines for now? For anyone with a long-term time horizon, we strongly recommend against attempting to time the markets. That said, here is guidance that can help you prepare for the next financial storm:

1. Acknowledge that bear markets and recessions occur and typically occur regularly. The U.S. has been in a period void of serious economic and market downturns though don’t be lulled into complacency. It’s not a question of if, but when we’ll see the next bear market.

2. Adopt the 20-percent haircut approach. It’s likely that your portfolio is worth considerably more than it was during the great recession and that’s terrific. But investors who rely on their paper gains can easily become disappointed, or worse. Whether you’re an individual, institutional or nonprofit investor, it makes sense to plan and budget with the assumption that your portfolio could be worth 20-percent less at any point in time. How might that alter your plans? What about your spending? The S&P 500 fell more than 50-percent in
the last bear market. That was the worst downturn in decades so assuming you have a somewhat balanced portfolio, applying the 20-percent haircut approach to the value of your portfolio seems like a prudent strategy.

3. Don’t sleep on diversification. As shown below, large U.S. stocks have been the darlings over the past decade though that won’t always be true. I remember back in 2009 when investors were asking if it makes sense to even own U.S. stocks. Asset classes and regions come in–and–out of favor...domestic stocks won’t always shine and technology companies won’t always lead the pack.

No one knows when the next bear market or recession will occur but these principles should help you prepare for unavoidable downturns.

+1 800 274 3978
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