July 2019 – Can Bad Things Happen to Good Economies?

The Stock Market and Economy are two different things.
- Charlie Munger

The Bull Market's Dazzling Decade

One often heralds the arrival of each new decade, as if the ten-year milestone was an indication to start something new while reviewing the old. It is useful to consider how much change has unfolded these past ten years, and we reflect upon this remarkable period, we should think of what the future holds.

March 9, 2019 would have been an ordinary day for most people. But for those in the investment and financial advisory business it was the tenth anniversary for this record setting bull market. The S&P 500 index hit a low of 666 on March 9, 2009, and capitalism was in doubt. As a matter of fact, The American Association of Individual Investors' survey found its members more bearish than at any other time. Fast forward ten years to March 9, 2019, and the S&P 500 sat at 2,743 and averaged a total annual return of 17.7% (*Bloomberg LLP*). Two of the S&P 500 companies actually exceeded the trillion-dollar market capitalization threshold. Indeed it has been a remarkable decade.

The record expansion we saw was in large part due to accommodative monetary policies:

- After Lehman Brothers failed, global Central Banks stepped in to support fully their financial systems and their most important institutions to restore confidence.
- Our Federal Reserve implemented its historic Quantitative Easing program and its balance sheet grew by $4 Trillion.
- The overnight Fed funds rate dropped to a low of 0.25%.
- Internationally, the bond yields collapsed to below zero. (This means one had to pay their government to hold your money.)

The US economic expansion will also celebrate its tenth anniversary this year. Just as the past decade dazzled investors, some of the conditions still exist for decent future returns.

- Interest rates, the basis for fixed income security valuations, remain low and they are remaining lower for longer. This tends to support stock valuations.
- The Federal Reserve has communicated in no uncertain terms their accommodative stance.
- Inflation continues to befuddle economists and investors by being very low despite seven years of near zero interest rate policies, and the economic consensus does not see a 2% rate of inflation until 2021.
- Consumer confidence remains strong according to University of Michigan surveys of consumers.
- Unemployment is at the lowest level, 3.6%, in decades.

However, interest rates can only go so low, and against the back drop of trade tensions and geopolitical uncertainties, GDP growth and business investments eventually get affected. Companies may also find it challenging to grow their revenue and earnings in a weak economy as supply chains find it harder to reengineer. Globally, the economic conditions tend to follow the lead of the United States. The slowing of the US economy tends to affect growth in the rest of the world. This can be seen from the fact that

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approximately $12 Trillion of bonds in the developed world outside the US are trading at a negative yield.

Issues surrounding tariffs, high levels of global debt and persistently low bond yields are challenging policy makers. Bad things can happen to good economies if the issues highlighted do not get resolved.

This brings us to the gist of this letter. Low interest rates and slower growth are a big worry for clients who are retired or approaching retirement. We all ask, "Will I have enough"? And "How much should I withdraw during retirement"?

Many financial magazines and websites advise using no more than 4% rate of withdrawal. Such a rate also depends upon our own personal lifestyle and requirements. But many clients have been successfully able to withdraw funds from their accounts at a far greater rate and still have been able to grow their accounts in excess of their withdrawals. This phenomenon has been noticeable in the last several years as markets set record highs. In the future, the market returns of the past may not be, and are unlikely to be, the same. Understanding your expenses and having a disciplined mindset will help you resist the urge to make rash decisions during heightened volatility.

Conclusion

The past decade has rewarded investors with handsome returns. We believe that patience is a virtue in this market. Allocating funds across a diversified portfolio will continue to serve you well in various market cycles while minimizing volatility. This will also help you stay focused on your long-term goals while ignoring the daily gyrations.

Many investors are inclined to "take money off the table." Our core tenets include maintaining a consistent risk profile and investment policy and communicate regularly. We do not believe this should change. However, just because assets have increased does not mean they will now decrease. We believe so long as interest rates are low, most stocks, particularly those with reasonable and increasing dividends should be fine. We would caution to be careful about changing your risk tolerance unless your circumstances change. The 4% rule will provide for increased distributions as your assets grow, but remember this applies to long periods of time so before violating this rule, talk to us.

As always we thank you for your support and allowing us to serve you. Please call us with any comments, questions or concerns.

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