Registered Investment Advisor Firm

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Questions:

Q: Will the bull market end soon?

A: A common misperception: Bull Markets die of old age. They don't always

Last month marked the seventh anniversary of the current bull market. This is the third longest in history, only 3 more months to move into second (the longest was 113 months, Oct 1990-Mar 2000).

The recent correction could have kept the trend in third place at 84 months. Since the summer, the S&P 500 has sustained two separate corrections of more than 10%. The S&P 500 is currently below its record high of 2131.

While painful, corrections in bull markets aren't unusual. In fact, it is quite normal for bulls to run out of steam before regaining their upward trend. I like to think of this as a pressure cooker needing to relieve some pressure to continue cooking.

The 1974-1980 bull market had six corrections of at least 10%. The 1949-1956 bull market had 3 pullbacks of 14%-15%.

But this isn't a normal bull market. A big catalyst for this seven year rally has been the central-bank's decisions. From the Federal Reserve's (FED's) ultra-accommodative policies to its recent reluctance to move quickly on interest rates, it has been micro-managing the business and economic cycles more than ever.

And it isn't just the U.S. The European Central Bank's latest stimulus and the Bank of Japan's negative-interest-rate policies are changing traditional cycles. These distortions are playing out in the stock market, too.

The frequency of corrections within a bull market rally isn't a good indicator of when a bull market ends. Neither is the length of a particular rally.

Fundamentals and Central Banks matter much more. Their policies will dictate when this bull market cycle will end.

Q: What is an appropriate cash allocation?

A: Fund managers used to keep cash in reserve in case the stock market corrected. Until the late 1990's, fund managers kept much more set aside for a rainy day; between 1986 & 1995, stock funds held an average of 9% in cash. But, as of 2016, the average U.S. fund had only 2.9% of its assets in "liquid assets" (cash and other readily saleable securities).

Index funds, those auto pilot portfolios that hold all stocks in a market, have made holding cash irrelevant. Active stock pickers look at cash as a negative. If stocks rise 20%, then a fund with 10% cash will only generate an 18% gain.

Unlike professional managers, individuals keep cash for a variety of reasons. Reasons like cash flow cushion; rebalancing needs; income needs; market correction protection; market direction timing; diversification; asset safety and a few more.

The appropriate level is an individual decision based on the individuals risk/reward needs. A 2-1/2% - 3% would suffice most needs, but 9%-10% may be necessary.

If the market crashes again, investors will realize how vital it is to protect yourself with plenty of cash. No one else is going to do it for you.

Q: Have we recovered from the "Great Recession"?

A: 10 states have fewer jobs than before the recession in 2008. Those states are Alabama; Connecticut; New Jersey, New Mexico; Nevada; Maine; Mississippi; Missouri; West Virginia and Wyoming.

While these states have not regained all the lost jobs, many more have only seen modest gains.

FED Watch

Still holding .25%-.5%. March produced no changes and it is looking less likely of a late April change

Next meeting is April 26th and 27th.

Still on the edge of our seats.

Davis Investment Group

Davis Investment Group is a fee-based Registered Investment Advisor firm servicing the needs of clients across the United States.

Davis Investment Group custodies all client assets at Charles Schwab & Co. Davis Investment Group's home office is located at 714 Marin Street, Suite #C, Vallejo, CA 94590. The telephone number is (707) 648-2024.

If you have questions or would like further information on this month's topics or any other financial or investment related subjects, including Social Security claiming strategies, please contact me by phone or through my email address at: Bob@DavisInvestmentGroup.biz