Registered Investment Advisor Firm

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NERVOUS?

"Bull markets don't die of old age; they die of fright" as the adage goes. Usually, that fright comes not from elevated prices or mass panic, but from exogenous events: war, oil shortage, unexpected finance collapse.

I thought a brief look at the nine bear markets since World War II (WWII) - and the events that precipitated them, could put today's high market valuations in perspective.

May 1946-May 1947- Dow -23.2%. Cause: winding down of the war effort. Stocks soared starting in 1942 when victory seemed likely. As troops came home, however, government factory jobs ground to a halt, industrial production plunged and investors feared a return of the Great Depression.

December 1961-June 1962- Dow -27.1%. Cause: rising cold war fears and labor unrest. After the failed Bay of Pigs invasion of Cuba in 1961, the unions and President John F Kennedy had a war of words over salary increases, sparking fear of an anti-business administration.

February 1966-October 1966– Dow -25.2%. Cause: cost of war. The "Go-Go" years hit a speed bump. The Federal Reserve (Fed) warned in March 1965 that the economy was overheating. Treasury bill rates and the consumer price index began rising. The U.S. bombing of Hanoi marked an increase in the Vietnam War effort.

December 1968-May 1970- Dow -35.9%. Cause: Political turmoil. Race riots in Detroit in July 1967 were the start of two years of rioting after the death of Martin Luther King Jr. and Robert Kennedy and massive anti-war demonstrations.

January 1973-August 1974– Dow -45.1%. Cause: Oil Embargo, Watergate. The Watergate scandal helped push stocks down, but the Arab Oil Embargo started in October 1973 pushed the prime interest rate to 11.5%.

April 1980-August 1982– Dow -24.1%. Cause: Inflation whipped. Paul Volker became Fed Chairman in July 1979 and set out to crush soaring inflation by raising rates to unprecedented heights. By December 1979, the prime rate was 21.5% and by August 1982 unemployment was 10.5%.

August 1987-October 1987- Dow -36.1%. Cause: Rising interest rates. One of the greatest bull markets was born after the 1982 bear market, buoyed by falling interest rates and tax cuts. Inflation jitters sent the 10-year Treasury up 3% in ten months, sparking a flight to safety. The Dow plunged 22.6% on October 19, 1987, one of the sharpest one-day drop (in today's dollars the Dow would drop almost 5000 points).

March 2000-October 2002- Dow -38%. Cause: Insane prices. Stock prices soared to new heights, and some of the highest fliers didn't actually have any earnings. Selling began in March 2000, starting with technology stocks (Y2K).

October 2007-March 2009- Dow -53.8%. Cause: Housing market and banking collapse. Easy mortgage loan standards set by congress and Wall Street accelerated the collapse as several of the biggest institutions failed.

Valuations, rising rates and the aging economic expansion have made investors and fund managers nervous. But the fact is, based on historical data, valuation measures and other indicators aren't much use in predicting the markets next move.

The current economic expansion is in its 98th month- nearly three years older than the average economic expansion since WWII. But today's economy could not be described as overheated.

Our current annualized GDP is below average. The difference between 10-year and the one year Treasury is still below average. The current P/E on the S&P500 is higher than average, but low inflation typically accompanies higher P/E ratios and we are currently in historically low inflation.

The fundamentals for a bull market are still intact and the market is not panicking. Of course, when the market sells off, it's impossible to know how low it will go or how quickly it will recover. There is some political noise today, but none of the previous bear market causes are in place.

SIT TIGHT, unless you think you will need money soon for other needs besides investing for your future. Contact Bob Davis at DIG for more information.

T+2

The industry is changing the settlement period for stocks, bonds and ETFs beginning September 5, 2017. To minimize the market, credit and liquidity risks that can occur between the inception of the trade and its settlement date, trades must settle within two days (T+2), instead of the current three-day (T+3).

This change means that sellers will receive proceeds one day sooner, while buyers will need to have funds available one day sooner.

FED Watch

No activity since the last meeting and only a 5.5% chance of a rate increase before the December meeting.

Next meeting: September 19th and 20th.

Davis Investment Group

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

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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