LEGACY
FINANCIAL STRATEGIES

MARKET COMMENTARY

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PROGNOSIS

When the doctor tells you that you are healthy, how much anxiety do you have when you leave? Do you immediately schedule a follow up or happily wait for next year's checkup? The financial media is the doctor who tells you death is imminent and you quickly schedule another meeting. Trade, interest rates, impeachment and the election season will be discussed insatiably and offer endless viewpoints that supposedly will negatively impact portfolios in order to justify our fear.

Survey Says?

Legacy sent a survey to our clients in 2018 and received 125 responses. 78% responded that the primary reason they use our firm is for financial planning[1]. While a sound investment portfolio is a critical component of our process, understanding your concerns and goals is more actionable than a sound bite on TV. A very belated ***THANK YOU*** to those who provided feedback.

Not Newsworthy?

Consumers are responsible for roughly 70% of the US Economy (GDP). The unemployment rate of 3.6% is still at its lowest level since the 60's[2]. Wage growth is strong and consumer spending is up 4% compared to one year ago[2]. Couple that with a national savings rate of 8% and US consumers have found a nice balance. This positive trend is seemingly ignored or discounted when mentioned by the media.

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Are we stuck?

Most of the S&P 500 stock index gains in 2019 were in the first 4 months of the year which followed the dramatic rebound that began on December 26, 2018. Year-to-date stock market performance is impressive but 1-year numbers not so much. The stock market peaked on September 20, 2018 creating a "high water mark" to which we compare against. From there, stocks fell nearly 20% through December 24, 2018. When the value of something falls 20%, it requires a 25% return to get back to where you started. If the stock market remains near the current levels, 1-year stock market performance comparisons will look better through year end.

Beginning period	Ending period	S&P 500 Performance[3]
January 1, 2019	April 30, 2019	17.5%
May 1, 2019	October 31, 2019	4.0%
September 21, 2018	September 20, 2019	2.0%
October 1, 2018	September 30, 2019	1.7%

Risking at all

Investors tend to define risk as either volatility or how much of their portfolio is allocated to stocks. The other consideration is time horizon, which is when the portfolio is needed for spending. Most clients maintain an allocation to bonds and cash. Because their values are more stable, this portion of the portfolio is used for spending needs in 0-5 years depending on the situation. Stock market values can move substantially day-to-day or even year-to-year. Selling stocks to buy groceries during short term losses erodes the long term growth potential of a portfolio. While stock dividends can be a source of income, the primary purpose of owning stocks is long term growth.

Im-peachy Un-keen

Politics aside, impeachment inquiries are not a positive event for the US. They distract from progress and are divisive to our country. This will become accentuated in the 2020 election cycle. Only two Presidents have been formally impeached and neither were removed. Bill Clinton in 1998 and Andrew Johnson (Lincoln's VP) in 1868[4]. Nixon resigned and didn't have to face the music. Nixon and Clinton are the only reliable "data points" in modern investment history and they occurred during different economic climates. Nixon's inquiry occurred amid the Oil Embargo and a US recession in '73 & '74[5]. During this economic time period, the stock market fell considerably. He resigned in August 1974. The S&P 500 gained 32% and 19% respectively in 1975 and 1976[6]. Clinton was impeached in 1998 during the technology bull market when stocks were performing very positively. However, the inquiry coincided with the collapse of Long Term Capital Management, a giant hedge fund that led to a bail out by the Federal Reserve Bank of New York adding downward pressure to the stock market. Clinton was acquitted in February 1999 and by that time, stocks had recouped their losses[6]. Both periods experienced declines in the stock market but were later followed by gains. While the precise effect on the stock market for these two events cannot be accurately measured, stock prices fall due to uncertainty. Historically, geopolitical events tend to cause an average market downturn of 5-7% but typically recover within weeks depending on the severity[7].

In summary

Geopolitics and interest rates have and will dominate headlines (and volatility) for the foreseeable future. While our investment committee does monitor these events, we also monitor the positive news that may not be in focus. The consumer is a positive force in the economy. Economic growth in 2019 is still in line with the annualized gains experienced since the recovery started in 2009[2]. Our primary focus continues to be properly preparing clients for life events and budgeting the appropriate amount of investment risk for each client individually. We are committed to owning stocks for the long run and allocating to bonds and cash to fund short and intermediate-term income needs. If anything has changed with your financial situation, please call our office to visit with your financial advisor.

Chris Proctor
Chief Investment Officer

1 Legacy Financial Strategies, LLC
2 FRED Economic Data (St. Louis Federal Reserve)
3 Performance of SPDR S&P 500 ETF (SPY)
4 US House of Representatives
5 US Office of the Historian
6 Financial Times (FT)
7 State Street Global Advisors