First Quarter 2017 Market Review

Q1 in Review

Looking back to the beginning of Q1, we saw a lot of bullish excitement to start the year. The Dow reached 20,000 on January 26, and powered through February to surpass 21,000 in early March. But by the end of March, we started to see headlines that the "Trump trade" and the "Trump bump" in the markets may be slowing down. These headlines are not wrong—they just focus on the wrong thing.

The start of 2017 certainly looks more positive than the start of 2016, which veered into true correction territory, with markets dipping double digits at certain points. This year, the S&P 500 and DJIA are up 5.6% for the first quarter. We're neither jumping on the table with joy nor biting our fingernails, worrying about markets being overpriced. Why? Let's look at the past 10 years to gain some perspective.

A decade ago in March 2007 right before the financial crisis — there was no widespread concern yet about the housing market bust, inflated valuations of investment markets, widespread fraud in the investment space, or the change the 2008 election would bring. Recent headlines suggest that right now, we're in a similar calm before the storm in the market, and that we all should be completely losing our minds with panic about an upcoming market drop to counterbalance recent gains. But when you look at the actual returns of the past ten years, it is clear this would not be a good use of your time. It may surprise you to see how muted market performance has been over the past decade.

From the end of March 2007 pre-crash level to the end of March 2017, the average annualized return for the DJIA and S&P 500 were each only 5.2% (8.10% and 7.51% respectively including dividends). Over that period, markets had some big outliers—the 2008 crash brought both indexes down over -37% and the next year, both recovered over 23%. But even with the strong performance over the past couple of quarters, markets are well within a normal range—even below normal levels. Many in the media point out that we are in the midst of one of the longest bull markets in history. This is also way overblown. In fact, of the 9 previous bull market cycles, this one ranks 5th, again slightly below average. And this most recent upward-trending market after the financial crisis was in an environment of heightened regulations, near-zero interest rates, and a GDP crawling along around 2%. Markets have performed well, but there may well be more to come in this very resilient market.

How can you be concerned about new market highs coming out of a stretch like that? I'm actually quite optimistic about where the market can go from here. This does not mean volatility will be absent. In fact, market fluctuations are common during good and bad times but there is a higher probability of volatile times during periods of rising rates and uncertain fiscal policies. In addition, we have hit a time when change in the markets—both downturns and their subsequent recoveries—happens so much faster than it once did. We need to get used to an increased rate of volatility *and* an increased rate of technological innovation bringing with it changes to markets. In addition to the rate of play being faster in general, inflation is likely to be more significant going forward. This is good for savers but remember, increased inflation will bring greater volatility, as much of the population may be hurt by rising costs.

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Any time inflation presents itself, it’s a good environment to be investor. It’s a bad environment to be a debtor. I recommend you seize the opportunity to be on the right side of our current economic environment.

Opportunities Ahead

Recently my daughter played a softball tournament benefiting a nonprofit called Trevor’s Treasures. This is an organization started by a young boy named Trevor Blake, whose final wish as he was battling cancer was to give “treasure boxes” of toys to other children with pediatric cancers. Now his family honors his memory by delivering treasure boxes to children during the holidays, and recently they have worked to provide a Trevor's Treasures Treasure Box year-round in the Pediatric Oncology Unit at Fairfax Hospital.

The atmosphere at the tournament was tense. My daughter’s team was playing against a strong local rival. Both teams are extremely competitive in the area. The kids wanted to win, the coaches wanted to win, and the parents did too. Some of the parents on both sides were so intensely focused on the field. You could see, and sometimes even hear, their frustration about the way their daughters were playing.

I overheard this and made eye contact with a friend of mine, a fellow dad. “Why are we here again?” I asked him quietly, and I could see he got what I meant. It’s easy to lose perspective when you are only focused on a single moment in time. There are days when a girl might be struggling at bat, making an error in the field, or maybe not pitching at a peak level. But especially at that tournament, I felt fortunate that I was able to watch my healthy daughter play a game she enjoys.

It’s easy to get panicked over short-term problems or concerns. There will be a rough inning, or a tough tournament every so often in your life, and the markets will certainly provide tough days, weeks and even months. But it doesn’t mean you take your eye off the ball, or stop trying to achieve your ultimate goals. Be thankful you are one of the lucky ones with the ability to dream for a brighter tomorrow.

If you are reading this, you have the ability to be on the right side of an inflationary climate potentially coming up. Take pride in your success, take an optimistic view of your future, and seize the opportunity to do good with what you’ve accomplished.

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