March 4, 2019

Market Insights for Week Ending March 1, 2019

Take a Step Back

"The market can stay irrational longer than you can stay solvent." This is a famous, at least by financial market standards, quote by economist John Maynard Keynes that often gains increased notoriety in times of enhanced price volatility. The literal meaning of the quote has to do with a short-seller who has bet against a market that he believes is extremely overvalued, only to find his timing to be way off and in the process, loses all his money as the market grinds higher and higher (shorting a stock/market means betting it will go down and carries unlimited risk of loss). The more general point that Keynes was trying to make is that timing and risk management are two of the most important aspects of any investment. You can have a well-researched and sound investment thesis, but the "irrational" market just doesn't do what it is supposed to.

Earlier in the year, HCM encouraged both clients and employees to participate in an exercise called One Word. The purpose of One Word is to create a single intention for the year with the ultimate goal of applying positive change in our lives. For those of you who took time to participate, I hope you found the process useful and are seeing benefits. For those who haven't come up with their One Word, let me offer a suggestion. I would offer the word "perspective" as I think it relates to many things taking place in the markets right now.

The chart above shows the growth of $10,000 over the past six months, invested in the S&P 500 ETF(SPY) in blue, the MSCI All-Country World ex-US ETF(CWI) in red and the Core US Bond ETF(AGG) in orange. What you will notice is that even with the furious rally that we have had over the past 11 weeks, index values for equities still haven't reached the levels they were at the beginning of September.

Why Do We Care?

Over the past 6 months, I have had the opportunity to speak with many clients and have discussed a wide variety of viewpoints on the market. Some of these were certainly more in tune with market conditions at the time of the discussion but the point is that most clients have a strong market position, bullish or bearish, and usually it takes a simple 15 minute conversation to understand which direction a client "believes" the market should go. What I find most encouraging is that almost all our clients have some form of data to support their positions. What I find most challenging is that most clients' time frames to grade whether their positon is right or wrong is simply way too short.

Going back to the chart above, I would be surprised if most investors, not just HCM clients, would have been able to guess the order of performance in the chart from above. My suspicion is that most investors would have extrapolated from the past 11 weeks that equities would have been the best performing asset class, completely ignoring the prior 4 months. When we allow ourselves to focus on a time frame that is too short, our benchmark for what is considered success or failrue can easily become distorted. Not only that, but it can cause investors to make bigger bets as we attempt to reconcile our market/economic view (usually long term factors) with current price movements (short term factors). There is a timing mismatch.

The true challenge investors are facing right now is that there is a massive clash of conflicting signals. The market continues to move higher while the fundamental data continues to weaken. Q1 S&P 500 earnings per share growth is currently projected to be negative while the Atlanta Fed recently reduced their GDP estimate for the first quarter to 0.3%. Nonetheless, the Fed policy pivot and China-US trade "optimism" has given stocks enough amnesia to continue to march higher. At its current pace, the S&P 500 would expect to return around 90% for the year. I think it is safe to assume that isn't going to happen.

So how do we overcome a confluence of conflicting signals? Easy, we use some perspective. We understand that making large bets in this type of environment is a recipe for disaster. We remember our friend John Maynard Keynes from earlier and realize that the market can and will do things that we think it "shouldn't" do, but we make sure we are prepared for all outcomes and have a plan in place to deal with each. We review our investment themes to see if anything has changed. Lastly, we evaluate multiple time frames to ensure we aren't making short-term, emotional decisions.

Our world has made tremendous technological advancements that have allowed investors to access information faster than ever before, yet sometimes the most valuable thing we can do is simply slow down.

Weekly Focus – Think About It

"A cloudy day is no match for a sunny disposition."

-William Arthur Ward

HCM WEALTH ADVISORS

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Market Activity

Performance last week for the four major asset classes were:

- U.S. Stocks – Russell 3000 (IWV) – Gain of .45%
- Developed Foreign Markets (EFA) – Gain of .78%
- Emerging Markets (EEM) – Loss of -1.28%
- Fixed Income (AGG) – Loss of -.47%

(Note: performance is based on the change in price plus dividends)

Last Week's Headlines

-China A-shares scored their biggest weekly gains since mid-2015 after the US announced it would hold back on a planned tariff increase on Chinese goods.

-The British pound rallied on diminished perceived risks of a no-deal Brexit.

-US GDP grew faster than expected in the last quarter while Chinese factory activity contracted in February.

Eye on the Week Ahead

-No policy change is expected at this week's ECB meeting but any further signs of policymakers acknowledging a weakening growth outlook would be notable.

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