McCARTHY GRITTINGER
FINANCIAL GROUP LLC

Market Predictions

February 2019

Firm Update – Alicia Nordwig, CFP®

We are very excited to announce that Alicia recently obtained her CERTIFIED FINANCIAL PLANNER™ (CFP®) designation![1] As we continue to improve and strengthen our services as a firm, we are proud of our individual team member accomplishments and how they can enhance the client experience. Congratulations, Alicia!

"If you choose to play the winner's game of owning businesses and refrain from playing the loser's game of trying to beat the market….Then at last, whatever returns our businesses may be generous enough to deliver in the years ahead, reflected as they will be in our stock and bond markets, you will be guaranteed to earn your fair share." John C. Bogle

We thought it was fitting that we begin this month's newsletter with a John Bogle quote. Bogle, who founded Vanguard Company in 1974, passed away in January at age 89. We share many of John's investing philosophies and are thankful for what he was able to contribute to the investing world.

Market Predictions

Each January, economists and investment professionals make their yearly guesses of where the stock market will go the following twelve months. I say guesses because that is what they are.Unfortunately, predicting the stock market direction in the short-term is comparable to your favorite superhero's superhuman power. The likelihood of correctly timing a purchase at the

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[1] *The CFP® certification process, administered by CFP Board, identifies to the public that those individuals who have been authorized to use the CFP® certification marks in the U.S. have met rigorous professional standards and have agreed to adhere to the principles of integrity, objectivity, competence, fairness, confidentiality, professionalism and diligence when dealing with clients.*

ultimate low and selling at an eventual high is similar to being able to fly. In other words, don't bet on it.

To illustrate, we looked at the legendary investor Warren Buffett's (CEO of Berkshire Hathaway, Inc.) recent purchases. Was he able to time the exact bottom and tops? Between October 2017 and September 2018, he purchased 122 million shares of Apple stock.[2] During this time period, the stock price was generally rising. However, Buffett continued to make purchases each quarter. We can only assume that even Buffett knows there's not one bottom price. If he did believe in one price, he would have made the purchases over a much shorter time period. Not even Buffett appears to possess superhuman short-term price guessing skills.[3]

The illustration is not to say Buffett is a poor investor. His overall investment record speaks for itself. He is good at his job. However, it does highlight that if he does not find or strive for the exact tops or bottoms, other investors should not either. Rather investors should assume they will not correctly buy at the exact low or sell at the exact high. This is the base case scenario. Be surprised if you get the bottom or top. If it does happen, chalk up the result to luck rather than skill.

Market prices are messy. Investors that expect an exact path for their investment portfolio are in for rude awakening. Real investing is about being comfortable with the distribution of outcomes as opposed to searching for the perfect outcome. This concept is difficult for investors. I partly think it is due to our math brains.

The math that gets a rocket to the moon is different than the math that works for investing. The math involved to get the rocket to the moon is a precise calculation with specific formulas. That same rocket in the investing world might still get to the moon, but it is going to take a much different path. For one, the path will only be known in hindsight. Secondly, it will not be a straight path (My apologies to our engineer readers. This is very difficult).

"*There are no specifics in probability and statistics – only distributions. In these domains, all you can know about the future is that you can't know it.*" – Peter Thiel

Market Volatility

Big drops in market prices are uncomfortable. Anyone who says differently should probably have their heartbeat checked. However, it's not the feeling that causes harm, but the reaction to the feeling. We think investors respond better if they have the following things:

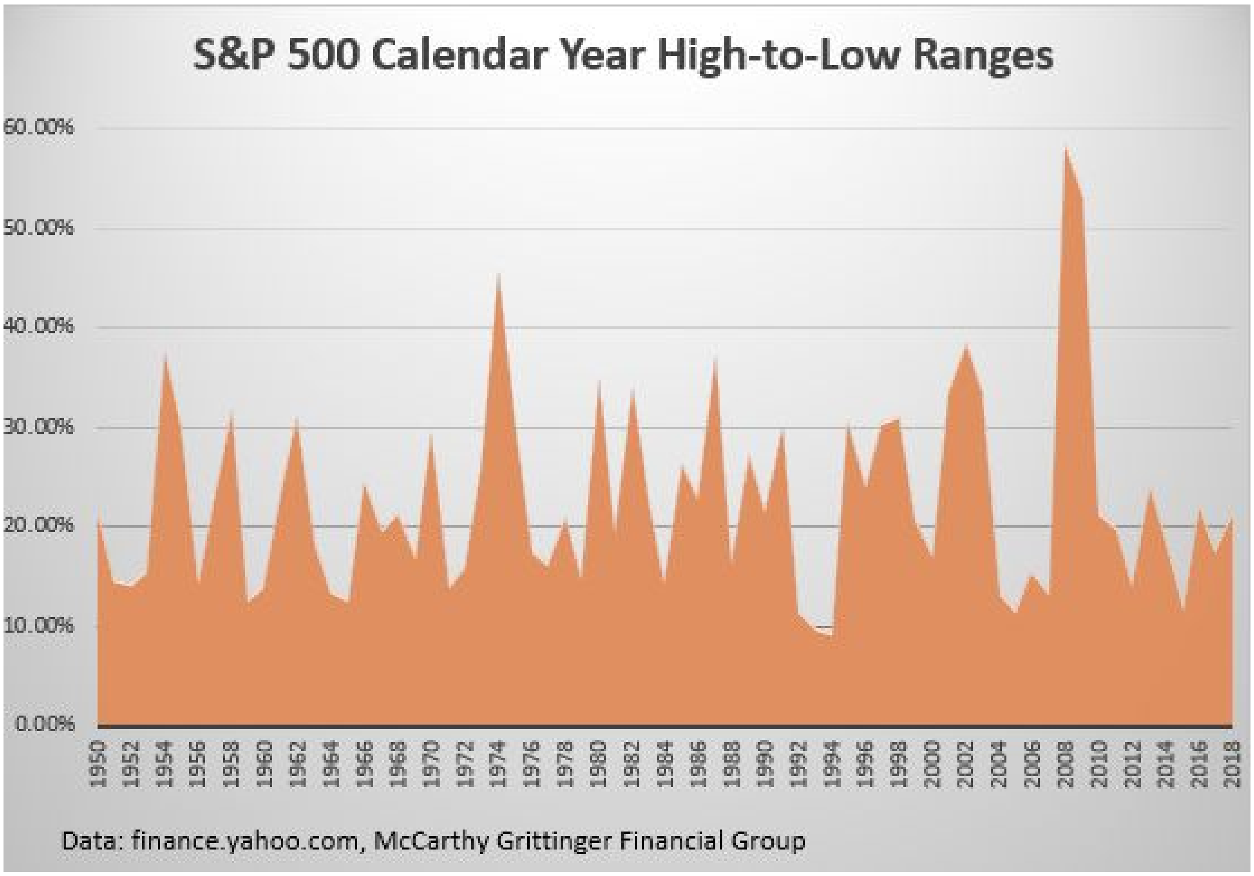
[2] Berkshire Hathaway purchase information from SEC Form 13-F filings. Apple stock price and volume via finance.yahoo.com.

[3] The specific opinions expressed are for general purposes only and are not intended to provide specific advice or recommendations for any individual or any specific industry. Any mention of a particular security and related performance data is not a recommendation to buy or sell that security. Any indices referenced for comparison are unmanaged and cannot be invested into directly. Investments in securities involve the risk of loss. Past performance is no guarantee of future results.

- Simple understanding
- Emotional control

Simplicity out of complexity

The simple understanding is that volatility in the stock market is normal. Here is a chart showing the difference between the highs and lows of the S&P 500 Index each calendar year from 1950-2018. The quick takeaway is that an investor's base case scenario should assume that every year the S&P 500 has annual fluctuations of +10%. In addition, 20% is not that abnormal either. Armed with this knowledge, investors might not be surprised or panic when it happens. It is normal.



Emotional Control

"The genius in leadership is the man who can do the average thing when everybody else is going crazy" – Dwight D. Eisenhower

It is difficult for individuals to not act in times of real or perceived market volatility. The next 10% correction can either become the next 20% decline or quickly recover the losses. Investors natural inclination is to rush to action. However, research would show that those reacting to market movements often do more harm than good.

In the book *Aspirational Investor*, the author, Ashvin Chhabra, describes a thirty-year period from 1984-2013 in the which the S&P 500 index delivered an annualized return of 11.1 percent per year. Sounds like a great time to be an investor. However, he states equity investors over that same period earned 3.7 percent per year. The biggest culprit being market timing.

Though it is easy to understand this was a bad strategy in hindsight, it's very difficult living through the day-to-day market movements. We think it's best to be prepared before the emotional rush hits. The higher the stakes, the cooler investors need to become.

Looking forward
We are thankful for opportunity to continue to be a part of your lives. Life, like the stock market, is always changing. No one is sure what will exactly happen tomorrow or when the ups and downs of life will arrive. However, we stand ready to help you and your families get through whatever life brings your way. We are thankful for your trust and do not take that for granted. All the best for a healthy, happy 2019.

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