Fourth Quarter, 2017

My Comments and Opinions

Before we review the final quarter of 2017, let's take a look at the recent spate of market volatility, which is likely caused by computerized sell programs, institutional sellers and panicked TRADERS. Traders are fast-paced 'in-and-out' opportunistic profit hunters. In my opinion INVESTORS are different. They take the long view. Investors look for good quality investments and hang on through good times and bad. Think Warren Buffett. Now as it turns out, this recent course-correction may be quite short-lived. Of course nobody on this side of Eternity knows the future of the markets, the future prices of putty in Egypt, or the population of paramecia in Portugal. But it is a little easier to guesstimate the movements of asset prices if we know the factors that can influence their price movements. Generally, high inflation, high interest rates and high taxes are a drag on economic activity and stock market performance. When inflation, interest rates and taxes are lower, stocks tend to do well. High and low are relative measurements. Higher than what? Lower than what? Can we agree that U.S. inflation and interest rates have been relatively low for a number of years?

When I entered the financial services industry in the summer of 1975 the Dow Jones Industrial Average was trading at around 800. As I'm writing this, the Dow opened today at 25,052. In a little over 40 years the Dow Jones Industrial Average has gained over 24,000 points. The Dow is only an approximation of the market's value because it's built of only 30 big company stocks. And these are not the original 30 stocks. Over the years certain companies were dropped and others took their place using a complicated formula.

Stock markets can be explained in many ways. Here's one: Ecology, which is defined as the scientific analysis and study of interactions among organisms and their environments. A forest is an environment of large and small plants and animals that interact. A stock market is an environment of large and small stocks [the shares of companies] and the humans who interact with the market. Just as a mighty Sequoia starts as a seed, massively large companies often start out as small seed companies. The largest trees in the forest can crowd out the smaller plants under their canopy. Very large companies can absorb smaller companies into themselves. General Motors is such a company. Since its founding in 1908, GM has acquired a number of auto makers. Mighty GM nearly fell down when it was 100 years old during the Recession of 2008. It was rescued by American, Canadian and Ontarian governments with loans. For a while GM was nicknamed 'Government Motors.' Great recessions are like large hurricanes. Even the biggest tree can fall over when the environment turns nasty. Healthy forests have adequate sunlight, rain and nutrition. They are relatively free of pests. Healthy stock markets thrive when the companies whose stocks are in the market are profitable, when they enjoy a favorable regulatory environment and when these individual stocks enjoy popularity and are bought by investors. During droughts, plagues of disease and pests, and over-harvesting, forests can take a while to recover. Markets also take time to recover after recessions.

But stock markets differ from forests in that they tend to move in anticipation of what might happen in 6 to 9 months. They are forward-looking. Forests grow in place. So, if there's a grim sounding announcement from some agency of government or chest-thumping threats from a foreign entity, stocks, like so many prairie dogs, will scurry off down into their burrows. When the threat is forgotten (prairie dogs have short memories) they resume foraging for opportunities to feed and prosper. So it is with stocks short term. When the *worry du jour* never comes to pass, shares return to popularity.

Long term movements are different. US stock markets have followed a course from 1929 to present defined by periods of growth and periods of stagnation. From 1929 to 1944 markets were often stagnant. From 1944 to about 1968 markets grew nicely. From '68 to '82 the markets didn't go up a whole lot. Then in 1982 the markets took off (I remember it well) until about the year 2000. After 2000 there were 9 more flattish years until 2009. Since '09 the markets have been moving up. All along these long-term trends markets formed smaller zig-zag patterns, moving up and then down and back up almost every 5 or 6 years. So, even during up-trending times the markets did their dipsy-doodle dance. The famous Ibbottson chart of stocks, bonds, bills and inflation illustrates this data in detail from 1926 to present. Source: Morningstar.

Today many companies are growing, hiring more workers and paying bonuses based on the recent Tax Law enacted by Congress and signed by the President. Money that had been parked off-shore is returning to America to take advantage of a one-time tax break for companies that repatriate their foreign- held profits. On January 2, 2018, the Dow Jones Industrials closed at 24,824. On January 26, 2018, the Dow closed at 26,616, up 1,792 Dow points. On March 5, 2018, it closed at 24,824, exactly where it started on the first day of January this year. The short round trip amounted to about a 7% swing during the first two months of 2018. 1,792 points looks gigantic, but it isn't relative to the Dow's current point status. This is called Volatility. It's not always fun.

FOURTH QUARTER OF 2017

STOCKS The Dow Jones began 2017 at 19,881, and closed on Dec. 29th at 24,719. This was a gain of 4,838 Dow points, or about 24 percent. 2017 was an unusual year because we don't often experience a 20% or more gain in any year. You could make the argument that the DOW was catching up on its poor prior performance from September of 2008 through January of 2013.

'The market will do everything it has to do to confuse the greatest number of people.' - Source: something I heard once. I think this is an honest assessment of market behavior.

And if this wraith-like movement of the market is so unpredictable, why do we try to predict its future? Perhaps because people are uncomfortable with the unknown. We humans take comfort in the dependable, the regular and the stable. But life is not so dependable, predictable or stable, including the prices of just about everything.

'Economists were invented to make Weathermen look good.' – An old Wall Street saw.

"The professionalization of economics, reflected in academia, has been described as the main change in economics since around 1900. Economists debate the path they believe their profession should take. It is, primarily, a debate between a scholastic orientation, focused on mathematical techniques, and a public discourse orientation, which is more focused on communicating to lay people pertinent economic principles as they relate to public policy. Surveys among economists indicate a preference for a shift toward the latter." Source: Investopedia.

In economics, a Goldilocks Economy sustains moderate economic growth and low inflation, which allows a market-friendly monetary policy. Not too hot. Not too cold. But just right.

THE FED Very recently the Chairmanship of our Federal Reserve Bank changed hands. Replacing Janet Yellen is Jerome H. Powell, an attorney who briefly served as Under Secretary of the Treasury for Domestic Finance under President George H. W. Bush in 1992. More recently, he was a visiting scholar at the Bipartisan Policy Center from 2010 to 2012. He has served as a member of the Federal Reserve Board of Governors since 2012. Source: Wikipedia.

REBALANCING YOUR PORTFOLIO is the process of reviewing your personal financial goals, current circumstances, and adjusting your investments to reflect your needs and goals. It's always a question of your risk/reward suitability. Do you feel more comfortable taking higher risks or more comfortable taking less risk? Do you need more or less income now? Will you need more or less income later, say at retirement? Draw a triangle. At each point of the triangle write one of these investment characteristics: SAFETY; INCOME; GROWTH. All three of these are mutually exclusive. We can't maximize any one of these features without minimizing the other two. This is one of the primary reasons financial advisors recommend some of each in client portfolios. For those who want more income, income is increased. If you want more growth, the growth component of your portfolio is increased. In many cases younger clients want to stress growth and older clients like more income.

Would you like to review how well diversified your investments are right now? Has anything important changed in your life? Would you like to begin preparing an estate plan for your family? Do you have financial questions that need answering? I've been a Certified Financial Planner™ professional since 1982. I'm here to help you.

FIDUCIARIES

Sue, and I are both fiduciaries. As Investment Advisor Representatives (IAR) with National Asset Management, Inc., Sue and I are held to a higher professional and ethical standard than salespeople who are not fiduciaries. Our primary obligation is to our clients. We must hold your interests higher than our own at all times. Not only is this the moral and ethical requirement for our profession, it's the law. Fiduciaries cannot guarantee investment results, but are required to act in the client's best interests. CFPs, CPAs, attorneys and trust officers are fiduciaries.

SOCIALLY AND ENVIRONMENTALLY RESPONSIBLE INVESTING is at the heart of good stewardship. More investment firms are embracing the principles of responsible investing. Behind this movement is the belief that being a good citizen is the corporate equivalent of doing well by doing good. Responsible investors avoid companies that pollute, or are human rights violators and/or display unethical management. Responsible investors look for companies who embrace environmental sustainability and resource efficiency. Companies who practice respect for human rights, diversity and the health and wellbeing of their employees and customers are candidates for these asset managers. Also, accountable governance and transparency which supports all aspects of responsible investing is the hallmark of good citizen companies.

YOU ARE INVITED

Brimmer Financial will be holding various meetings during 2018 to discuss the features and benefits of RESPONSIBLE SUSTAINABLE INVESTING. The first meeting will be held at the Provincetown Inn on Thursday, May 10th. We'll have a meeting at Noon with a buffet lunch. We'll repeat this meeting at 3 PM with refreshments – same place, same date. If you would like to attend, please call our office at 508-240-0320 so we can reserve your place.