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Money Talks: Managing expectations

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As we approach the start of yet another “season” here in paradise, we must manage our expectations and embrace the reality that increased population and traffic will soon arrive.

As we continue to strive to bring clarity and transparency to the world of money management, we are often compelled to take a different approach so as to make the information more digestible for the average investor. Retired investors have more at stake as they have only a finite numbers of years and market cycles with which to achieve their investing goals. For many, the goal is to avoid, or at least minimize, loss. The secondary goal is often the tough part as many seek meaningful returns over time, after taxes, inflation and fees.

By now, it should come as no surprise to readers of this weekly diatribe for truth that the Dow Jones average has achieved total index annual returns during the past fifteen years of approximately 3.3 percent per year. Sorry, the numbers never lie and the Dow touched 12,000 back in 2000. (See around 18,000 today.) The point here is simple; the next legitimate and meaningful correction with the stock market holds the possibility of reducing or even erasing these long term rates of return. Here is where retired investors must begin to manage their expectations with regards to both where they are today, and far more importantly, where they may be headed in the near term.

Recently, an insightful column was written in USA Today educating investors as to why the stock market has, and likely will continue to, experience larger swings in values. This type of price movement referred to as “volatility”. Price swings are nothing new to experienced investors, yet the larger swings at this juncture of this bull markets lifespan merits a closer look…closer so that we may manage our expectations and prepare for the possibility of catastrophic losses…yet again.

The column starts with a quote; “The Calm before the Storm”. He illustrates this concept with an easy to digest metaphor; “Like milk, low volatility periods in the market have expiration

dates." In other words, increased volatility is to be expected and prepared for accordingly. There is also reference to the Federal Reserve and their inevitable raising of interest rates. By now, we should be comfortable and familiar with the fact that when rates go up, bonds and stock generally experience downward pressure in values. Here again, managing expectations.

For those investors with less tolerance for volatility, now may be a good time to become proactive in seeking shelter from the storm in the form of alternative asset classes to complement the stock portion of one's portfolio. Further illustrative insights from the column go on to remind investors of a few more little nuggets that historically have had an impact on stock prices. The "political angst" that comes with election years is a traditional source of volatility.

In addition to the fact that stocks have traditionally experienced what was referred to as "Seasonal Headwinds" during September and October, the piece goes on to remind investors that "stock aren't cheap". The fact that this bull market has experienced a 100 percent run up in value on the heels of the last crash, the actual time period has gone well past any other in recent history.

According to the Wall Street Journal, " … this current bull market turned six years old in March 2015 … " now well over a year ago and approaching 18 months. In fact they stated that "Since World War II, the average bull market has lasted around four years"…as we are close to now nearly twice that age. Further they state that " … only three others have even made it to six years…this bull market started in March of 2009."

Now is very much the time to manage our expectations going forward and to give serious consideration to diversifying among different asset classes such as managed futures and insured index strategies to compliment the portfolio and certainly to enjoy the life of a SWAN, Sleep Well At Night.

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