China, Oil and the Middle East Oh My!!!

Let us look at our checklist for 2016. Trouble in the Middle East (check), trouble in Emerging Markets (China-check), issues in a major sector of the U.S. economy (oil melt down-check) and finally actual increase In the Fed short term rates (check). It's enough to give you indigestion.

However, reacting like a cat finding a cucumber behind them and jumping before you know what it is, means you are using the ancient, primitive side of your brain, rather than the highly evolved portion that works on a more rational basis. Remember a cucumber is not dangerous; it's not as if it is broccoli.

(If you haven't seen the cat videos, here you go: https://www.youtube.com/watch?v=kgcxBi9ahyA)

Emotions do not belong in investing. We need to use our rational mind to look past the talking heads.

I am not saying that there is nothing to be concerned about.

We have already had a correction in the US stock market from 07/13/2015 to 08/31/2015[i], and since the first of the year we have also been flirting with a correction[ii]. The problem is that there is no way to get in and out of the market and avoid these wild swings.

History tells us that market timing does not work. No matter how you slice and dice the data, investors significantly underperform the markets that they are invested in.[iii] Dalbar's most recent study points out that over the 30 year period ending on Dec 31, 2014 the average equity investor earned a compound rate of return of 3.79%; yet the market (as represented by the S&P 500) averaged 11.06%; an annual difference of 7.27% each year.[iv] That means that if you put $ 10,000 in the S&P and pulled a Rip van Winkle, went to sleep, and did nothing you would have almost $233,000 dollars. Yet the typical investor's $ 10,000 would have grown to less than $ 31,000. Why? Because investors keep pulling their money out of the market when they are scared and then do not reinvest until the market is high again. Sell low and buy high.

What should we do? Let us put our rational minds to work. Are the problems above real? Yes, however is there other data that suggests that the market is overreacting? I believe there is. If you have gone to the gas station recently, you know how much less it has cost to fill up your car, not to mention your home heating bill. Aren't these savings just like a raise at work? For December, the US economy added 292,000 jobs to the labor force making 2015 the best year for job creation since 1999.[v]

Looking at the data above, we might come to the conclusion that the market might be oversold. In recent months many of you have asked why we are holding so much cash. We have suggested that one of the reasons is to take advantage of buying opportunities if they present themselves. We think that now may be a good time to put some of that cash to work.

Has the market volatility ended? Of course not. Am I saying that the market is going higher from here in the short run? That's something no one knows. My rational mind is telling me that there are good reasons to reduce some of our cash now when things look attractive. We are investing for the long term and one of our goals is to use our rational mind to help us all reach our long term goals.

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This material contains forward looking statements and projections. It is our goal to help investors by identifying changing market conditions. However, investors should be aware that no investment advisor can accurately predict all of the changes that may occur in the market.

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[i] CNCB.com 01/14/2015
[ii] ibid
[iii] Dalbar's 21st Annual Quantitative Analysis of Investor Behavior 2015 Edition
[iv] ibid
[v] Bureau of Labor Statistics 01/08/2016