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Looking Ahead not Behind

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It's been more than well documented that 2015 did not end well for the financial markets and 2016 has started off very poorly. That's how I would describe my own year ending and new year beginning personally. As we typically do, the family spent the holidays in Vermont where we would normally ski. With record temps in the 60s, I spent the first three days skiing in a tee shirt and struggling to navigate through the grass, mud and rocks although quality time with my youngest son was certainly great.
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As has become a traditional, we headed to our good friends' house to celebrate Christmas with them and a slew of their friends. Great good, plenty of libations, an abundance of sweets and good conversation. Since my kids were born this couple has treated my kids like nieces and nephews(not mention my wife and I like family) and Christmas with them has become a highlight of the trip.

Skiing did eventually improve and dramatically by the time January rolled around although I ended up hurting my back before it did and I had to rely on the Advil breakfast to keep my going. Now it's like peak, mid winter conditions. However, on the way to winter, a wet snow and ice storm left huge chunks of ice on the roof of another friend's place and the hood of my car was a casualty of the development's poor roof design. Thankfully, no one was hurt and it's just metal and paint. My son was playing in that exact spot earlier in the day so we were very lucky.

Unfortunately, the developer claims zero responsibility for shoddy work, not to mention the previous problems with ice falling and his insurance company, Philadelphia Insurance, denied my claim. Now I have to decide if I want to fight it. Normally, I wouldn't, but this guy is unethical and irresponsible and eventually someone is going to get seriously inured.

2015 didn't end well and 2016 hasn't been so wonderful either, BUT I am eternally optimistic that everything is going to turn around sooner than later and the year is going to be just fine! We have four major life cycle events in the family in 2016 so it's going to be a busy year.

As I mention from time to time, in between Street$marts issues I am often very active on **www.Investfortomorrowblog.com**, especially when market are volatile like now. If you would like to be notified when a new posting has been made, please see this link. **http://www.investfortomorrow.com/BlogAlerts.asp**

Correction is a Market Event NOT an Economic or Systemic One

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The stock market has begun the year with its worst performance in history. You can't turn on the TV or read a newspaper (yes, some people still do that) or surf the Internet without being reminded of the stock market's weakness. I have written this before, but it's worthwhile to repeat; I believe what we are seeing is a routine and normal stock market correction (10%+).

It's a market event who's roots can be traced to last summer when the foundation of the market was weakening and crude oil was still above $60. We saw the same price action in August of 2015 (China), August 2011 (Greece and U.S. debt) and May 2010 (Flash Crash). This time, it's all about the historic relentless selling in energy.

The first 50% decline in energy during 2014 was universally lauded as a global tax cut for the consumer, but oil was still high enough for most of the major producers to at least break even. The recent 50% decline since mid 2015 is causing dislocations around the world for oil producing nations who greatly subsidize their economies not to mention the many inter-market relationships crude oil has.

If oil declined 75% over a five year period, governments, markets and economies would be able to adapt and adjust a whole lot easier than this current crisis pace. I imagine countries like Saudi Arabia and Norway are selling some of their investments to keep their social programs going. That is almost certainly weighing on stocks. Eventually, oil will find a bottom and begin the very, very long road to repair, but until it does, the global financial markets will be a bit rocky.

Getting back to the recent stock market declines mentioned above, none of those declines led to recession or were the result of recession and for sure, none were caused by a pending systemic collapse around the globe. The most famous event like this was the crash of 1987 which was non-recessionary and certainly not part of the entire financial system imploding.

Today, our economy is still not hitting on all cylinders and growth may be flattening out or even decelerating, but I still do not believe we will see the mild recession I often mention this year. If I am wrong, which certainly happens, I think it's a later in the year story and not right now.

Regarding the financial system, it is worlds different from what we saw in late 2007 and early 2008. I wrote about how this is absolutely not a 2008 redux.**http://investfortomorrowblog.com/archives/2085**. There are almost no similarities on the fundamental side.

Historically, 10% corrections occur every 11 months on average and 20% corrections or cyclical bear markets (less than a year) hit every three years or so. While the price action is bearish to watch, it should wrap up this quarter.
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The One Comp to 2008 that does Hold Water

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It's become very much in Vogue to invoke anything 2008 when it comes to the stock market this year. Royal Bank of Scotland (RBS) has gone so far as to call for a "cataclysmic year" and to "sell everything". Other Wall Street firms have reigned in their bullishness and are now adopting a "sell the rally" mentality over one that says to "buy the dips".

I find this whole glacial shift absolutely fascinating as I review their previous forecasts from 2000, 2001, 2002 and 2008. In each and every year which turned out to be "sell everything" kind of years, Wall Street was uniformly positive throughout the year. This sudden turn is very surprising and the only way to view until proven otherwise is from a contrarian point of view. In other words, to use one of my favorite sayings, the masses are usually wrong.

While I vehemently disagree with RBS, JP Morgan and the like, there is one comparison to 2008 that does hold water, for now. That's simply the price action of the stock market to end the year and begin the new one. Below you can see the end of 2015 and start of 2016 through last Friday morning. After multiple rally attempts in November and December, stocks fell hard to end 2015 and right through mid January of 2016 to the MLK holiday.
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Turning back to the end of 2007 and beginning of 2008 below, all rally attempts in November and December failed, leading to the selling accelerating into year-end and then falling hard into the MLK holiday. The percentage decline back then was roughly double what it has been so far in 2016.

Once the stock market reopened after MLK on Tuesday, as you can see on the left hand side of the chart, it fell to the ultimate low that morning. The next day, Apple missed earnings and its guidance was lower, leading to another very weak open that was bought aggressively to close the day sharply higher.

From there, stocks rallied for a few weeks before revisiting those same January price levels in March, right as my third child was being born. The next 8 weeks saw big gains for stocks before the financial crisis really took hold as Fannie and Freddie began their collapses.

Until we see the stock market put in its first low, all scenarios remain on the table and I do not believe the bottom will a simple, one time affair. Rather, heightened volatility and perhaps a revisiting of the January levels will be in the cards for late February to mid March before a much better rally sets up.

Planning for the Retirement Smile

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What should your income requirements be in retirement? The recommendation used to be that one would need 75-85% of current income in retirement. Then, when advisors found their clients spending more than forecast, the recommendation went up to 100%. The latest data at planning for retirement show much more variability. For most retirees, spending starts out high during the GoGo years of peak activity. It then declines a bit during the Go Slow years when travel and other activities begin to tail off. Finally, during the No Go years, discretionary spending really falls off, but potential home care expenses rise.
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The early years of retirement are often the time of greatest activity, with travel and social activities high on the list of priorities. Costs taper off in mid-retirement with lower activity, only to rise again as health care costs begin to take a larger share of spending. As a result, the retirement cost curve can be shaped much like a smile.

And that smile also reflects the periods of risk to the individual.

A substantial portfolio loss early in retirement if and when withdrawals are relatively high can dig a hole from which retirees struggle to recover. Mid-retirement, when withdrawals are lower, may allow more aggressive investing but the time horizon is shorter. A conservative stance may be more appropriate in the later years when the portfolio may not have any meaningful time to recover from losses.

All things to consider when we meet for a review.

Investment Quotes/Adages To Live By

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"In God we trust, all others bring data."
- The Elements of Statistical Learning

"The only easy day was yesterday."

- The U.S. Marines

"When in doubt, get out!"

"If it's obvious, it's obviously wrong."
-Joe Granville

"It's ok to be wrong, but it's not ok to stay wrong."

"This time is different."

"The markets require the patience of a dozen men."
-Robert Rhea

"Luck is the residue of effort."

"The most bullish thing a market can do is go up in the face of bad news."

"The most bearish thing a market can do is go down in the face of good news."

"The market can stay irrational longer than you can stay solvent."
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-John Maynard Keynes

"Government is best which governs least" - Thomas Jefferson

Inflation is the one form of taxation that can be imposed without legislation.
-Milton Friedman

"You cannot legislate the poor into freedom by legislating the wealthy out of freedom. What one person receives without working for, another person must work for without receiving. The government cannot give to anybody anything that the government does not first take from somebody else. When half of the people get the idea that they do not have to work because the other half is going to take care of them, and when the other half gets the idea that it does no good to work because somebody else is going to get what they work for,that my dear friend, is about the end of any nation. You cannot multiply wealth by dividing it." - Dr. Adrian Rogers, 1984

"Bear markets seem to be divided into three phases: the first being the abandonment of hopes upon which the final uprush of the preceding bull market was predicted; the second, the reflection of decreased earnings power and reduction of dividends, and the third representing distressed liquidation of securities which must be sold to meet living expenses. Each of these phases seems to be divided by a secondary reaction which is often erroneously assumed to be the beginning of a bull market."
- Robert Rhea

"Free enterprise is a rough and competitive game. Nobody too big to fail. Nobody too small to succeed. It is a hell of a lot better than government control." - Ronald Reagan via Dan Kennedy

"A government big enough to give you everything you want is big enough to take everything you have." - Gerald Ford via Dan Kennedy

"The problem with socialism is that, sooner or later, you run out of other people's money." - Margaret Thatcher

"Diversification alone is no longer sufficient to temper risk... You need something more to manage risk well."
- Mohamed El-Erian

"A little bit at a time adds up to a lot in no time"

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