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WHERE DO WE GO FROM HERE?

By ,
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- How long can this bull market last?
- How will equities respond if interest rates begin to rise?
- If the dollar continues its upward trajectory what impact will that have on markets?
- What is the outlook for oil and how does that impact markets?
- How would a Greece exit from the European Union impact investor sentiment?
- What do the geopolitical events in the Ukraine and the renewed war on terror portend for market volatility?
- How will the 2016 election impact the markets?

If you have found yourself asking any of the above referenced questions recently, you are far from alone as an investor. We could write entire papers on any one of the questions, a process Wall Street is famous for in an effort to keep money in motion. In reality, the answers could be a few short words or sentences as indicated below taken from common sense, practical experience and a healthy dose of long-term investment perspective.

Q. How long can this bull market last?
A. "Longer than you think is the short answer. The long answer is the average bull market lasts, according to Forbes, 97 months or a little over eight years. The average bear market according to the same source lasts 18 months or about 1.5 years." (Of course, past performance is not a guarantee of future results).

Q. How will equities respond if interest rates begin to rise?
A. "They actually tend to go up initially, especially if the increases are accompanied by an improving economic backdrop. According to JP Morgan Asset Management, when yields are below 5%, rising rates are generally associated with rising stock prices."

Q. If the dollar continues its upward trajectory what impact will that have on markets?
A. There are pros and cons. The pro is that capital should continue to seek out dollar denominated assets. The con is that the price of U.S. produced goods and services become more expensive around the world. The verdict is mixed, but longer-term a strong dollar is a net positive for U.S. investors in our view.

Q. What is the outlook for oil and how does that impact markets?
A. Oil prices appear to have stabilized for now as forecasted 2015 exploration and production (E&P) company capital expenditures have been cut by 15-30%, indicating the beginning of the oil cycle's built in self-correcting mechanism. Furthermore, the drop in oil prices is a boon for consumers and corporate profitability outside the energy sector, which makes up only 8.3% of the S&P 500 as of 1/31/15. It should be a net positive for the other 91.7% of the S&P 500.

Q. How would a Greece exit from the European Union impact investor sentiment?
A. In the short term it would probably lead to volatility and uncertainty because people would wonder who is next. In reality, Greece's economy represents 0.3% of global GDP. Eventually, we believe the world's markets would get over it and that their exit, *if it were to happen*, would not be the long-term end of the world as we know it.

Q. What do the geopolitical events in the Ukraine and the renewed war on terror portend for market volatility?
A. History is littered with geopolitical tension and outright war. Notwithstanding the tragedy of war, the world's economies and markets march on as for profit companies relentlessly pursue innovation to improve the basic human condition. It is in mankind's DNA to do so.

Q. How will the 2016 election impact the markets?
A. The United States of America has held 20 presidential elections over the past 80 years. Republicans won nine of them and Democrats won eleven. Every one of them seemed big at the time. Yet over that period, the market as measured by the S&P 500 returned roughly 7% per year turning $1 into approximately $216 (before adjusting for inflation). As a result, we pose the question why spend any energy trying to predict something that is difficult at best to handicap and that in reality will have little or no bearing on the size of your portfolio 10-20-30 years down the road.

Which brings us to the point of the article; While markets currently appear fairly valued by historical standards and the potential for increased volatility exists based on the length of the current bull market, investors should be aware of the important events and topics of the day, but should not be overly consumed by them. Things have a way of working themselves out and it can be very disruptive to the long-term miracle of compounding to speculate or try to time otherwise. This is not to say that investors can't decide to take a few chips off of the table from time to time, but assuming a reasonably diversified portfolio is in place, we would suggest that investors spend the majority of their investing related energy focused on understanding what they own, the role it plays in the portfolio and the intermediate to long term asset allocation decisions that ultimately will have the greatest impact on pending life events such as college payments, weddings, home purchases, retirement etc., making adjustments where needed based on the proximity of those events.

History is littered with issues of the day that at the time appeared unprecedented. In many ways, 2015 feels very unique but so did 2014, 2013 and so on. At a juncture such as this, we remind investors once again of Warren Buffet's time tested observation, "in the short term the market is a voting machine, in the long term it is a weighing machine." While some may get the voting machine timing right, the odds, in our opinion, are in your favor focusing on the weighing machine side of the equation.

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