

Financially Speaking

With Trisha Arndt

Investing is Simple, but Not Easy

One of my favorite Warren Buffet quotes is, “Investing is simple, not easy.”

When you boil it all down, I think that really does sum it up. We all understand that we want to buy stocks when they are low and sell them when they are high – simple, right? But in practice our emotions often tell us to do the exact opposite. When stock prices are going straight up we get excited and want to buy more. And when volatility kicks in and we see values decline fear rears its head and we want to sell, perhaps at exactly the time when we should be buying.

Simple, not easy.

In my newspaper column last month I talked about the Goldilocks market that we had experienced for virtually all of 2017 and the factors that led to it. As I laid out, stocks went up in value because the fundamentals were “just right”. Growing global economies coupled with low interest rates, improving employment and tame inflation resulted in rising corporate revenues and robust bottom lines. The stars all aligned it seemed.

So what changed last month that caused market volatility to suddenly return and stock prices to correct (i.e. fall by 10% or more) for the first time in nearly two years? On a fundamental level nothing much.

All of the factors that my column laid out are still in place and corporate earnings announcements have started the year even stronger than anticipated. In fact, the case can be made that the volatility in February was partly a result of things looking too good. Really.

Investors can be a skeptical lot and when things go really good for a long time they tend to look ahead to try and anticipate what could change. The jobs report that came out in early February indicated that long anticipated wage growth appeared to have arrived, with US wages growing an annualized 2.9%. While I think most would argue that this is good news, the investment markets saw it is a sign that perhaps wages would grow too fast, which could lead to higher inflation, which could lead to higher interest rates, which could... well, you get the point.

The volatility was amplified by the fact that a lot of investors were looking for a reason to take some of the profits they have made and by the computers that were preprogrammed to rapidly trade if certain triggers occurred. The result was a rapid pull back in stock prices followed by stabilization and some bounce back up.

It has been quite a while since we last saw a true correction in the US stock market so it may have felt scary - but it really wasn't. Historically the stock market declines by 10% or more at least once a year. Before 2017 literally every other year in history had at least one month when stock prices declined. Last year's lack of volatility was the abnormality, not the recent market actions.

Most market corrections are the result of uncertainty and not a true fundamental shift. Once that uncertainty is assuaged investors tend to refocus on the fundamentals and, if they remain strong, the markets recover. I suspect that this recent round of volatility will look just like that - several ups and downs followed by stabilization, a refocus on the strong fundamentals and a move forward.

With that being said, eventually the fundamentals have always changed and we may be starting to see some of the winds of that change now.

The stock market's negative reaction to the announcement of the US imposing new tariffs on steel and aluminum was rooted in history. If the US imposes tariffs that lead to our trade partners retaliating with new tariffs on our products (and the European Union has specifically threatened to impose tariffs on Harley Davidson and Wisconsin cheese) then a trade war could ensue and that could materially affect the global economy. The investment markets also tend to prefer stability and certainty from government policy, something that can be called into question by high level personnel changes, especially those that work directly on economic issues.

As my last column said, it is very important to have an investment strategy that is appropriate in all market environments, not just when everything is "just right". You don't want to be tempted to let your emotions get the best of you and sell just because values are down or buy too much stock when prices are already up a lot.

Simple, but not easy.

All indices are unmanaged and investors cannot invest directly into an index. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties which are difficult to predict. Past performance is not indicative of future results. Diversification does not ensure against market risk.

Trisha Arndt, CFP[®], is President of Wealth Strategies of Wisconsin Ltd, 901 Kimball Lane, Suite 1400, Verona, WI 53593, 608-848-2400. Securities and Advisory Services offered through Commonwealth Financial Network, member FINRA/SIPC, a Registered Investment Adviser.