

Financially Speaking

With Trisha Arndt, CFP®

Bulls vs. Bears – The battle continues

I'm blessed to work with a wonderful group of clients that I enjoy both professionally and personally. For a relationship between financial planner and client to be truly constructive I find that having personalities that work well together is a must. The financial planner needs to truly hear what the client is asking for and the client must respect and appreciate the advice they are given.

While I've long known that my clients are special, I am sometimes still surprised by them – such as I was by a recent email I received. The client had taken note of the recent market volatility and the fact that the stock market, as measured by the S&P 500, declined 11.43% during the second quarter. The client was concerned – not about their accounts or investment strategy but about whether the volatility had caused me undo stress.

Wow. That's an exceptional individual.

For several months I have gone on and on (maybe at nauseum to some) about the competing positive and negative pressures that I see being placed on the stock markets. I felt that these competing influences could result in a stock market that would experience significant volatility in 2010 but would ultimately neither reach a substantial new high nor retest the “generational low” that we fell to in March of 2009.

For the first several months of the year the stock market continued to rise largely unabated, causing me to question if perhaps I was still so shell-shocked by the Great Recession that I had become overly pessimistic in my views.

And then along came May and June.

Perhaps triggered by the Greek debt crisis, fanned by the gulf oil spill and prolonged by economic numbers that seem to confirm a less robust recovery than hoped for, the stock market entered a several week pull back that can officially be called a “correction” (defined as a decline of greater than 10%). It has been marked by heightened volatility with the S&P 500 moving up or down more than one percent in a day a number of times. Remember the “flash crash” anyone?

The third quarter of the year has started with a decided change of direction with the S&P 500 moving several percent higher in just a few short trading days.

So why is the stock market seesawing so dramatically? Because there are strong bullish and bearish forces at work causing the markets to rock back and forth between positive and negative sentiment and not find a clear direction. Let's examine some of the biggest influences.

On the bearish front (negative forces for those who are unsure of the jargon) there are a number of indications that the economic recovery is losing steam. New home sales fell off a cliff after the expiration of the homebuyer tax credit and unemployment numbers have remained stubbornly elevated, especially disappointing in May when expectations were running high. Growth in the Gross Domestic Product has been revised downward (though it is still positive) and many fear that government spending is only artificially propping it up – at the cost of massive new debt creation. Couple all of this with concerns about the viability of a number of European nations and the on-going disaster in the gulf and it is not hard to see why the second quarter was rough on the stock market.

But, all is not bad in the world.

The US economy is still expanding and while unemployment numbers are high we have at least stopped losing jobs, and even started adding some. You'd be hard pressed to find a time in recent history when US corporations as a whole were in better shape than they are now – they have leaned down expenses and have balance sheets that are flush with cash which can ultimately be used to reinvest, pay out dividends or hire people and grow. Earnings season has started with a decidedly positive note and, if the trend in earnings holds for the year, stocks may be selling at historically low price to earnings ratios at this level. Couple all of this with the massive amount of cash that investors are still holding on the sidelines (earning little interest in cash accounts) and many make the case that this may be an excellent buying opportunity for the long term investor.

So where does all of this leave us? With exactly the stock markets that we have had this year – marked by frequent reversals in direction and heightened volatility. Times like this can be a good opportunity to revisit your personal investment plan to make sure that it still fits your objectives, time frame and risk tolerance. Once you're comfortable with the plan you have in place, tighten your seat belt and hold on for the ride.

¹All Indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S & P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's.

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