

WHAT A LONG STRANGE TRIP IT'S BEEN! by Kamyar Kashfi

On the day before Christmas, the S&P 500 closed at an all time high of 1833.32.¹ I believe it is safe to say that the general media coverage of the market over the last 5 years was flat out wrong. From the Fiscal Cliff, to the Euro Crisis, the presidential election, Obamacare, sequestration, rising taxes, endless congressional budget deadlines, Fed tapering debates and no shortage of speculation about earnings, housing and unemployment, the market has climbed each successive wall of worry. It was an endless barrage of fear, fear and more fear. The contrarian in me actually appreciates the healthy dose of skepticism which permeated the investment landscape. Perhaps the most worrisome thing now is that there is no crisis du jour left to worry about. All of the above mentioned events have been resolved and the market has taken it all in stride. It appears that the American economy is very resilient.²

In 2008, it felt like the end of the world and now in 2013, it is a brand new world. Perhaps the easy money has already been made. Take the term "easy" with a grain of salt because there have certainly been a few bouts of volatility along the way. Going forward, it seems to me that the focus will be squarely on things such as earnings, economic growth and price earnings multiples. Can corporations continue to grow earnings in a fashion which meets or beats investor expectations? Can earnings grow with less stimulus and fewer cost cutting measures? Can corporations expand margins while at the same time hiring new employees to meet demand? What effect will higher borrowing rates have on capital outlays and investment returns? These are the types of things investors will vigorously debate.

The good news is that these are pretty normal things for markets to worry about and are not sexy enough to cause CNBC to create a new countdown clock. It's business as usual. The bad news, however, is that during business as usual, markets tend to discount bad news. So long as the economy continues to improve and corporate earnings deliver, then the market might attain new highs. Ultimately the market will attain a level referred to being "priced for perfection". Being priced for perfection means that as long as things go well then prices may climb but there is no room for error. In other words, markets will be looking for an excuse to correct. The benefit of the doubt the market receives as it climbs the wall of worry may succumb to a bit of fatigue.

At the top of the market in 2008, very few people predicted the calamity which would follow. It was a once in a generation event (we hope). The very existence of our financial system was thrown into question. Today, our financial system is recording record highs and profits. The lending system which froze is now debating whether or not to loan out record amounts of cash. Things are getting better. Are things perfect? They never are but I believe they are certainly getting better all around the world.³ As we look forward into 2014 I believe it is more important than ever to stay diversified, rebalance and take a measured view of markets. Expectations need to be managed. The market has never been at these levels before and who knows how exuberant investors may ultimately become. There are not a lot of things to worry about and that is by far the most worrisome thing. Not long ago investors debated how low markets might go and now the debate has come full circle to debating new highs. In the immortal words of Jerry Garcia, Bob Weir, Phil Lesh and Robert Hunter, as they use their band's misfortunes on the road as a metaphor for getting through the constant changes in life, "Lately it occurs to me, what a long strange trip it's been!"

Let's review your portfolio! Take a proactive approach and plan ahead!

1. <http://www.marketwatch.com/investing/index/SPX>
2. http://advisor.marketscope.com/SP/msa/generatePDF.html?&articleCode=LOOKOUT_REPORT&articleId=1230885&attachmentName=
3. http://advisor.marketscope.com/SP/msa/generatePDF.html?&articleCode=LOOKOUT_REPORT&articleId=1230885&attachmentName=
4. <http://en.wikipedia.org/wiki/Truckin%27>

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