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EIGHT FOR EIGHT

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As we end 2019 our economy keeps humming along. Unemployment is at record lows and new jobs are being created at a robust rate. Consumer confidence is high, spending is up, savings are up, household net worth is up, and real estate is up. You name it and it's up, except manufacturing which is down a little but is now a small part of our economy whereas consumers are 70% of our economy which more than makes up for weak manufacturing. In all, our economy expanded 2.1% in the final quarter and 2.3% for the year.

2019 was an exceptional year for investors who were invested in just about everything. According to the American Institute for Economic Research, which breaks down investments into eight asset classes, "There have been nine calendar years in the past two decades during which all eight provided positive returns for the full year," and 2019 was one of them. So, the only way investors could go wrong in 2019 is by not being invested. If you have money it should always be invested in something appropriate to your goals. It doesn't matter whether you prefer risky or safe investments, there is always something you can invest in that makes your money work for you.

When investing the bottom line should be, will this investment make money? So, it is counter intuitive that U.S. stocks had good increases in profitability in 2018, but their prices fell. Whereas in 2019 their profits were flat and stock prices rose dramatically. What's up with that?

Well, the stock market is a forward-looking indicator as are most market-based investments. This means that the current market price of an investment is based on what the investment community thinks the investment will earn in the future, not what it is earning now.

This makes investing based on future profitability risky. So many investors choose to invest in low risk, low yield investments like a ten-year U.S. Treasury Note at approximately a guaranteed 1.6% yield currently. It may sound crazy, but if an investor wants to make a higher return on their investment, they need to embrace volatility or risk.

This is because the short-term risk and chances of losing money keeps many away and therefore the market prices are lower for risky investments than safe investments. Therefore, you get a better price on your riskier investment.

So, if you have a long-term goal of five years or more for your investments then stocks should be one of the best options. In order to allow for drops in the stock market you should have three to five years of your income needs in low risk investments so that you won't be forced to sell your stocks when they are temporarily down. Therefore, you will have enough money to wait three to five years for the market to recover, which should be more than a sufficient amount of time for recovery.

If you want, I can create an investment strategy that takes advantage of your risk tolerance and time horizon. If you have any questions or concerns give me a call at (503) 668-2530.

Your Friend,

Bob

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