2017 Outlook Revisited:
Is the Trump Rally Losing Steam?

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Steve Sanduski: Hello everybody and welcome back to Keen on Retirement. I'm your co-host Steve Sanduski, and joining me today is Bill Keen and Matt Wilson. Hey guys. How are things?

Bill Keen: Things are going well here in Kansas City, Steve. How are you doing?

Steve Sanduski: Doing fantastic here, enjoying a little bit of spring time. This is a great time of year, as we're coming out winter time, spring time. Things are warming up. Things are turning green.

Bill Keen: Yes, they are. We're getting a little wind and some weather down here in the Kansas City area, but it's what to be expected I think, no surprises here.

Steve Sanduski: Yeah, yeah, absolutely. We got baseball starting, and, yeah, it's a great time of year.

Bill Keen: Well-

Matt Wilson: Yeah, I always like it just because the time change. The sun stays up-later that when I'm at the office late at night, it doesn't feel like I'm actually working that late.

Steve Sanduski: Well, Bill doesn't us work-

Bill Keen: Yeah, that's perfect. That's what we try to tell all the team members here.

Steve Sanduski: Yeah. You don't make them work late, do you Bill?

Bill Keen: Oh, for goodness sake no. He wants to be here. I have to send them all home.

Steve Sanduski: We are working a little late today due to me and a little technology glitch, so appreciate you guys working a little later than normal here to get the podcast going here today.

Bill Keen: Well, no problem. It's our pleasure. We finished up a meeting here not long ago and we were good to roll right into it. Steve, these podcasts, as we've talked in the past are such a great medium for us to be able to share with our listeners on their time, when it's convenient for them to listen in. What we're seeing in the firm on a day to day basis and almost real time with what's happening, and we've just been getting quite a nice bit of feedback about how our listeners are appreciative of us being willing to share the information. But first I wanted to ask you a question Steve. I'm going to put you on the spot today.

Steve Sanduski: Okay, I got my thinking cap on.

Bill Keen: All right. Matt, you can pipe in, but I would say only after we've given Steve at least probably five seconds. I'll admit I don't have my buzzard handy today, but I'm going to go with this. Steve, tell me what was the Dow Jones Industrial Average in 1961. I have information that told me that that is the year that you were born.

Steve Sanduski: Now Bill, we're never supposed to tell our ages.

Bill Keen: Steve, you look like you were much younger than that sir.

Steve Sanduski: Well, I wasn't exactly born yesterday. All right, well, here's how I'm going to come up with the answer. I grew up in Omaha, and my dad has been an investor for ever. Back in the 1970s when we would have dinner, we basically would have dinner at the same time every night. There was a point, it was like at 5:20 in the afternoon, they would have the Market Minute Update of KFAB Radio. I remember listening to that in the mid to late 1970s where they'd say the Dow Jones Industrial Average closed at such and such. I recall that back in the mid 70's I believe it was the Dow had hit about 1,000. Then I know it kind of meandered for a while. So if I'm going to kind of go backwards here from say the mid 70's to 1961, so I know it's less than 1,000. I'm going to say, let's go with 300 in 1961.

Matt Wilson: Wow.

Bill Keen: Not bad, not bad. Yeah, the number exactly-

Speaker 4: Booyah.

Bill Keen: Let's suggest he was right.

Matt Wilson: I'm going to give him though that he was close, close to the answer. I've heard this question a lot Steve. That's why I know the answer.

Steve Sanduski: Oh okay.

Bill Keen: Was that Jim Cramer, Matt? Is he in the studio today? Did I hear a booyah?

Matt Wilson: I won't claim that he is here.

Bill Keen: Okay, all right. Well, it was 616 to start the year 1961.

Steve Sanduski: Oh okay. I was a little off.

Bill Keen: Yes, yeah, a little off but not bad. Now let's go back because this is an exercise that I do with clients and friends of the firm. For us it's so important to provide perspective to folks as they think about how the next 20, 30, 40 years of their life is going to look, making key decisions on retirement dates and asset allocation and rebalancing triggers and just being able to sleep well at night. Perspective is so important.

One of the questions I always ask, and the reason I did it based on your birthday, it is because it provides, something relevant to the person in mind. A common year of someone that we would be talking to is a birthday of around 1950. The Dow in 1950, now I'll go and give you the answer in the essence of time, was it 200? It was at 200 in 1950. The relevance to this for today is, yes, we're going to talk about some current issues happening in our thinking, but I wanted to put some perspective on the fact that today the market is staying somewhere around 20,500 or so, and it's come from 200 in one 67-year-old person's lifetime. That is a 100 times the market is up, the Dow Jones Industrial Average is up, 100 times. Not 100% but 100 times.

Now that's a powerful wealth building mechanism if it's understood. That's what we want to try to do today. We absolutely do not want this to be misunderstood as a market timing, or let's look at the headline and make them sensationalized episode. I've asked Matt to step in the studio like we said here, to talk about the business cycle, some of the economic numbers that are out there, and not just the headlines of the day so we have more of an all-encompassing perspective.

Steve Sanduski: Well I know I'm interested in that, and I've got some questions for you too. But one thing I wanted to comment on, on what you just said there Bill, about from 1950 until today the Dow Jones Industrial Average having risen by 100 times, it's even better than that, because that doesn't include dividends. If people were reinvesting dividends, that would, your dollar value would even be dramatically higher than 100x. So it's really the power of compounding over time. What is it, Ben Franklin that said compounding is like the eighth wonder of the world?

Bill Keen: For sure.

Steve Sanduski: It is truly a marvel of math compounding over time.

Bill Keen: That's right. Matt, if you would like to kind of talk a little bit about where we stand today? He does a great job, every year at our annual holiday breakfast. It's out there on one of our episodes, actually video and audio, keenonretirement.com from the 2017 outlook. But I'm asking to basically update some of his numbers and talk about where he sees things today in the context of the actual underlying fundamentals and not just a headline. Although we will talk about headlines, and I know Steve you have some questions for us about the headlines.

Matt Wilson: Yeah, we get a lot of questions just about the recent run ups since the election. I mean the market, talk about probably surprising. Steve, would you have guessed that after the election, the result that we would have seen in the market performance since then?

Steve Sanduski: Well not at all. I know you guys all remember, and we had Greg Valliere on an episode here a while ago as well, and the thought was that if Donald Trump became president, that was going to be bad for the markets. Then I know you guys remember well the night of the election and kind of in the middle of the night or early in the, late in the evening when it appeared that Trump was going to win, the financial futures markets started dropping pretty significantly, and then somehow like in the middle of the night, maybe 2:00 in the morning, it just turned around and it just hasn't really stopped since then. It's pretty amazing how one minute it's like Donald Trump is going to be bad for the market, and then the next minute it's like, "Oh, maybe this is actually going to be good," and we've had a pretty nice ride since then.

Matt Wilson: The meetings that we had last year, so many of them in the summer leading up to the election were focused on exactly if Trump wins we think there's going to be, this is what clients were, they were reading, we're reading that the market is going to go down 10%. I mean just 100% the opposite thing happened.

Matt Wilson: "Okay, now what do we do now?" We look at it in many different formats. A year today, so the first 100 days of the year, we hear a lot of about first 100 days of the election, first 100 days of the year. The market, the US market is up 5% in the first 100 days of the year. Actually some of our research providers have looked back at this and we've run some data since 1988 looking at the start of the year. Did you know that the average performance is on the first 100 days of the year just going back to 1988?

Steve Sanduski: Bill, are you going to take a stab at that?

Bill Keen: The average return for the first 100 days, I'm saying that the average return, okay, if the average return long term is 10% in the equity markets, which it is approximately, then I'm going to say 2.5% for the first 100 days.

Matt Wilson: That's very, very good. I mean 2.7% the average. Percent of the time it's positive in the first 100 days is 66% of the time. We're up 5%, and that has happened 10 times since 1988.

Bill Keen: How did the rest of the year play out? That would be my question. That's our listeners' questions.

Matt Wilson: That's right. Then when we look at that and say, "Okay, how does the rest of the year pan out?" Well in 9 out of those 10 times the market is higher and it's significantly higher on average 9.5% for the rest of the year. Not that we're predicting anything from this data, but it just tells us how the year starts has a big impact on how the year ends.

Bill Keen: Remember last year Steve, we had to do an episode that was just kind of a calming effect because we were down, I think, didn't we open the year down 11%, at least from the prior high late 2015 I think we had the worst open to the year, yeah, maybe barring the Great Depression, other than that it was the worst open to a year ever, and we're not talking about that anymore, are we?

Matt Wilson: No, it ended up positive for the year. I've looked back at the last time we had a 5% start to the year. Do you know what year that was?

Bill Keen: 2013.

Matt Wilson: That's right, 2013.

Bill Keen: This is … Steve, what do you think? I'm coming in strong today, aren't I?

Steve Sanduski: You are man. I got to find my buttons here.

Bill Keen: I've been paying attention at least for the recent years.

Matt Wilson: 2013, it's not that long ago. 2013 was a very good year in the equity markets. Even though the market was up 30% that year, we had six different periods where the market fell between 3 and 8% throughout the year.

Bill Keen: Did you say? So six different times there were what we would call little mini corrections, weren't there, I mean six times?

Matt Wilson: 3 to 8% will get your attention when the market goes down that much. We had a positive 30% that year, but essentially every other month we had a mini market sell off, yeah, anywhere from 3 to 8%.

Bill Keen: Wow. This concept of people trying to get in and out of the market and time this is pretty much a sucker's game, isn't it?

Matt Wilson: Well, what it tells us is that it's normal. Volatility is normal, and it's not something to be scared of. But it is something to just be aware of and have a plan for.

Bill Keen: That's right.

Matt Wilson: On average, I know you shared me some data here recently on what the average intra-year market decline is.

Bill Keen: Yes. It's somewhere between 13 and 14%.We just came out of a client meeting here. A gentleman getting ready to retire a couple, and we're talking about allocations, and we just … Gosh, we talk about the coming corrections, always, because there's always a correction coming. We expect one every year of 10 to 14% or so at least. If you go back even longer, about every five years, we have a major market pullback.

We don't think that's going away. We believe that volatility is here to stay. Frankly, volatility is the price that we pay for the bigger returns. I mean if you can get 10% a year in an equity portfolio but you have to every so often go through a little short term pain to experience the long term return, it's just an understandable trade off that we have to talk about.

I was recently talking with my daughter who just graduated from undergrad at KU. What my deal with my kids are when they make money Steve, when they were going to college and throughout high school, when they had earned income, I would match that, but I wouldn't give it to them. I would put it in a Roth IRA for them. Isn't that a good idea? I mean ...

Steve Sanduski: Yeah, that gives them a great incentive, and then when they actually graduate they've got a nice little kitty there for them waiting for them.

Bill Keen: Well, that's right. That's right. The number that she has right now in a Roth IRA after her years of working is about $11,000. She's sitting on $11,000 in Roth and we sat down because I want them to take interest in how do they invest the money, not just rely on me to invest the money. Because the wisdom and the life changing lessons come from them understanding why they're doing what they're doing, and little changes at the front end of a career for a young person can make massive differences down the road.

We made a quick little estimate of if she put all of her Roth IRA in a diversified portfolio of stocks and we ran the numbers out of her, call it a 40 plus year working career, she's early 20s, that $11,000 would've been north of $1 million. That's what most people consider the risky choice. But in the safe choice if you put it into a bond let's say at 2 or 3%, thinking that you're being "safe", instead of having north of $1 million you have 25,000 or 30,000. That's the difference between understanding volatility.

That's not even with her adding anything else. That's just putting what she has in there and letting it ride. It's so important, yes, the demographic of our listeners are probably in their 50s and 60s, that are thinking of retirement, but this information applies for everybody long term and under all circumstances. It's really good to go back to the basics and just get a sense for how all this works.

Matt Wilson: We talk about averages and we look at a lot of market data, so those averages don't necessarily happen every year, just because it's an average. If we had a 13% decline from today, that will put us at 17,800 on the Dow. If that happened, what CBC, your phone, your tablets, your computers, they're all be buzzing and dinging at you that the market crash has started and the Trump administration has completely failed. And it has nothing to do with that. That could happen any time and that probably will happen this year.

Matt Wilson: Knowing that ahead of time helps us, we'll not make emotional decisions, individual investors are the biggest enemies to themselves.

Bill Keen: We talk about this, but I've sat down with many people that have deep financial experience, who still get overwhelmed by the emotion of seeing some of their portfolio go down, and they have this fantasy that they think they can sell at the top and get back in anywhere close to the bottom of these corrections we're talking about.

I've been doing this 25 years, and I've counseled thousands of people in 25 years, including myself and my own experience, and I've never, not once seen anyone exit the market at or near the top and get back in anywhere close to a bottom, or below where they where when they got out. Never ever seen it happen. I would suggest that if somebody's computer hasn't figured that out yet, that it would be very, very difficult for anyone to do that. And if somebody has done that accidentally once, I would say to replicate it is impossible.

Listen, and this might be just a little off track but I think it's important for our listeners to hear. Wall Street is a master at creating complexity and confusion, and I believe Wall Street for the last 100 years plus has looked at the individual investor as a sucker. I believe Wall Street has looked at people and played on their fears. There's a whole industry around people making economic prognostications and to feed into this fantasy that somebody can time the market. It just cannot be done and I believe that wholeheartedly.

Now can you understand how it works? Can you have allocations so that when things go down it triggers a rebalance so you're actually buying into the declines up to a parameter and guardrails that we agree on upfront? How about that as an opposite place to be and trying to time things getting in and out? I've seen wealth built over time by people this way and I've seen massive wealth lost by people trying to trade in and out.

Matt Wilson: And even to take it a step further, with the proliferation of social media, the people's narratives that they want to believe are out there. Everyone has an opinion and every website wants you click on it. They're going to just promote whatever it is, whether it's market’s going up, market's going down, and then social media, all the internet service providers can now sell all your data. They want that data so they can promote things that are interest to you. If you click on a bunch of articles that say the market's going down, the internet promotes more of that to you.

Bill Keen: That's right. Matt, tell me about, while we're talking about these things, because I think it’s, we're driving home the importance of understanding market cycles and understanding volatility, understanding the long-term returns, understanding that stocks, and equity, securities, the great, the companies of the world are not just poker chips that someone comes in and takes away from us at some point. There's real assets. There's human capital. There's intellectual property. There's services. There are things that create value, and that the market, we talked about this offline a little bit ago, the valuation of the stock market has been almost perfectly correlated with the underlying earnings of the companies that make up the market.

So regardless of what the headlines are saying it's all about looking through to the earnings, and things will always trade back to the amount of productivity that they're creating. But when we look at some things in the market we like to talk about, or the economy I should say, we like to talk about consumer confidence, we like to talk about employment, housing and some of those things that are actually some sort of indicator to tell us are we coming up onto a recession at least so we have that information in mind.

Matt Wilson: Yeah, because you just hit the nail on the head there with the market trades to earnings, and then what drives earnings is where are we in the business cycle. As we are in a expansionary period, the business cycle is growing, corporate earnings are growing. If we were in a pull back or a recessionary cycle, then earnings would be expected to probably retract some, which could drive stock prices down. We look at the economy as a way to just determine where are we in the business cycle, and then what does that mean for us in 2017 for the rest of the year.

As we mentioned we're at 5% this year. As the president, the new administration, are they going to be able to push through some of the things that they promised and talked about during the campaigning, and what does that mean for the market for the rest of the year? We focused a lot on the employment markets. Steve, you've been on our discussions with us before, but do you know why we focus so much on the employment markets?

Steve Sanduski: Well, I would say I think the unemployment rate is about 4.5%. So, if people have jobs, that means they've got money that they can spend. In our economy, I think about two-thirds to 70% of our economic activity is driven by consumer spending. So if we've got a lot of people that are employed, they've got some money to go out and spend, which can power the economy. That's what I would … I would say that's what it is.

Matt Wilson: That's it. That's the big driver of the US economy and the GDP here in the US, is the consumer. If consumers are doing well, if they're healthy, that we would expect the economy to do the same. Through the ‘08, ‘09 recession we had about eight million jobs lost during that recession. Since then we've had about 15 million jobs added. We're net positive seven million jobs since the last recession, and then we continue month over month to add more jobs.

Steve Sanduski: Yeah, that's a pretty amazing number when you think about it. Now I do have a question for you Matt, though. We talked about how in the middle of the night during the election back in November that the futures market just turned around from a big drop to a big gain when people just for whatever reason on dime they decided, okay, Trump had talked about he is going to significantly lower taxes for individuals, lower taxes for businesses, he was going to significantly cut regulations for companies to make it more easy to do business, he was going to have a big infrastructure built where he was going to spend a trillion dollars on building the infrastructure, so investors started to think, “Well, gosh, if he actually gets all these things done, that's going to be amazing for the economy.”

Now, so here we are, we’re more than 100 days into the presidency, looking like maybe it's going to be a little bit harder to get some of these things done, or maybe it's going to take a little bit longer than expected. My question to you is, how much of the nice increase we've had in the financial market since November have, do you think, have been due to people expecting that Trump's economic agenda is going to get implemented, and if for some reason things maybe take longer than expected or maybe they don't actually get implemented in the way people thought, how might that affect the market? I know this is going to be an opinion, but I'm just curious what your thoughts are as far as how much of the run is due to optimism about Trump's economic policy versus just the underlying fundamentals of the economy actually looking okay?

Matt Wilson: Just the initial reaction was definitely anticipation of maybe a more favorable business environment, lower taxes for corporations, lower taxes for individuals, and the market definitely was fueled by that discussion. Now since then you might see some struggles on some of those things happening, but that doesn't necessarily mean the market it’s just going to go back to where it was, because either they'd didn't pass or they took longer than expected. Just digging deeper into the economy and saying, “Okay, is the economy showing signs of weakness too,” which it’s not. As I mentioned the employment markets are strong, the unemployment rate hit 4.5%, labor force participation rate is continuing to improve. I mean the trends are what we look at, so it's not the absolute numbers and where they were in the past. It's what direction are we headed. Are we improving or are we going the other direction? I mean don't know about real estate up where you're at Steve, but real estate here in Kansas City is, it's pretty hot now.

Steve Sanduski: Yeah, the housing up here in Wisconsin is actually pretty strong as well, and particularly in maybe the starter home market to mid-size market I think is pretty strong. The high-end market is not super strong. It's taken a little while for that to come back, but certainly the starter to mid-size home market is doing well. Also, talking to an architect here recently, he said that people are not necessarily building the big mansions anymore, that the sweet spot is really homes maybe in the 2,500-square foot range to 3,000 square foot ranges more of a sweet spot these days.

Matt Wilson: Yeah, we're seeing that here locally as well. Part of it is because of the recession the inventory of houses, they're just not as many of them because so many builders didn't make it through that, but then to the first-time home buyers, all the millennials are starting to look at homes, and the cost to build a new house is probably twice the cost it is to buy an existing house, and so they are with low interest rates, they are just buying everything up here in Kansas City. I mean we've had almost everybody we talk to, if they've priced their house right, it's same day multiple offers.

Now we don't think that's a bubble. The first question we usually get is, "Oh, man, is that a bubble," and I don't think so. There's a lot of pent-up-demand that's just, it's taken a while to work through the system. Here's a couple other data points on just the health of the consumer. Household assets are seven times liabilities right now. The debt levels that consumers have aren't increasing. Assets are continuing to grow and expand as we've just said with the house prices are going up, and then the job market strong too, which those are just two very, very good leading indicators for the health of the economy and why we're positive and bullish on the market going forward for the rest of this year.

Steve Sanduski: Excellent. Well guys, a lot of good ideas, good thoughts there. Bill and Matt, you guys have any final thoughts as we wrap up?

Bill Keen: Well, I thank you Matt for covering some of that data that we do look at when we evaluate things. I just want to remember that every new president falters in the early days, and Trump is no exception. I don't know if you remember Steve, Bill Clinton tried and failed to pass a major health care overall right when he took office, and Bush, George H. W. Bush telling the nation that he hates broccoli. Do you remember that, sending commodity prices into a spiral? Do you remember that?

Steve Sanduski: I do, I do, yeah. I remember him, remember Clinton. Yeah, it's oftentimes a rocky start for a new president, it's obviously a huge responsibility, and in Trump's case he really didn't have much political experience or zero political experience, so it was all new world for him.

Bill Keen: That's right. I finally just want to finish with this whole process of handling your financial affairs, especially when you're considering retirement or you're in retirement it can feel really beyond your control, and yes, there are a lot of things that are beyond our control, but we are not victims of our circumstances.

It's the decisions and the behaviors that we each make around the things we can control on a daily basis and a quarterly basis and a yearly basis within our financial plan, staying and keeping it up-to-date, making sure that we're adding to our portfolios when we can, especially when the markets are going through corrections, rebalancing in times that it makes sense, making sure we're not paying too much on our mortgages, making sure that we have the appropriate health insurances in place, making sure that our taxes are efficient, all those things from a planing standpoint that contribute to our success, those are the things we can control and those are the things that make the difference too, those are the things.

I just wanted to end with that because I know we talk about so many things that could be real confusing, and I just want to say there's a real simplicity just beyond all that complexity.

Matt Wilson: Yeah, it's interesting. I mean I was going to echo that same thing. It's have a plan and then when it comes to the investment piece of it, pre-commit to a specific action ahead of time. If the markets are going to be volatile I will rebalance. We know they're going to be volatile, so it's going to be when they are volatile we will rebalance.

Matt Wilson: Bring it back to the plan what does it mean for me. I mean here's another way. If you find yourself getting hung up and checking your account balance on your phone throughout the day several times, it's time to delete the app. Pre-commit. If you notice you're doing that too often, delete the app.

Steve Sanduski: Guys, well this has been great. Again, lots of great, great content here and giving us a good understanding of what's been happening here in the market since the election and what we might expect to see here going forward the rest of the year.

Bill Keen: Thank you Steve. We look forward to our next episode and we'll talk to you soon.

Steve Sanduski: Sounds great guys. Thanks.

Matt Wilson: All right, thanks Steve.