KEEN ON RETIREMENT

Here are the Keys to Thriving During a "Bumpy" Stock Market

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Steve Sanduski: Hey everybody. Welcome back to another episode of Keen on Retirement. I'm your co-host Steve Sanduski and welcome to 2019. And I'm here with Bill Keen and Matt Wilson. Gentlemen, Happy New Year.

Bill Keen: Well Happy New Year Steve. And Happy New Year to you Matt.

Matt Wilson: Yes. Happy New Year. Good to hear from you.

Bill Keen: Yeah. And to all our listeners as well. I hope that the holiday seasons went wonderfully and that we're starting out this new year just on a positive roll. We want to keep those new years resolutions going, don't we Steve?

Steve Sanduski: We do, in fact. Of course, this is the time of year when you see all these statistics about how many people actually follow through with their new years resolutions and I've seen numbers all over the place. But one of them that I read here recently was that, by the second week in February, about 80% of people have already given up on their new years resolutions.

Bill Keen: Right. And Steve, I have to mention this. Our last blog post last week actually was about resolutions and how to think through those and hopefully make them impactful and stick. And that stat was in that blog post Steve.

Steve Sanduski: Yeah. That's why I remembered it.

Bill Keen: Okay. Very good. So you're reading them. Thank you.

Steve Sanduski: I read them. That's right.

Bill Keen: Excellent. Passed the test today.

Matt Wilson: Yeah.

Steve Sanduski: I'll tell you, that blog, that's a great source of information Bill.

Bill Keen: Well, thanks. Thank you so much. Keep it coming. Keep it coming Steve.

Steve Sanduski: Okay. Okay.

Matt Wilson: Are you still on track with your new years resolutions Steve?

Steve Sanduski: You know, I guess I don't technically make resolutions. I do have goals. And one of my main ones every year is to exercise. And so I set a goal of exercising 8 days out of 10. So basically 80% of the days of the year is what I set my goal. And I actually crushed it in 2018.

Matt Wilson: Nice.

Steve Sanduski: I came in at 87%.

Matt Wilson: Wow.

Bill Keen: Wow. Well done.

Steve Sanduski: So I think that's my highest ever.

Matt Wilson: That's pretty good.

Steve Sanduski: So I had a good year of exercise. So I'm feeling good here in the new year.

Matt Wilson: That's great.

Bill Keen: Pretty amazing how, not only is there the physical aspect to working out, hitting the gym and not necessarily overdoing it or going crazy, but just being in there, getting a sweat broken, which is what I try to do, again, nearly every day of the week as well, but just the mental aspect to it. Do you find that Steve, that the positive endorphins, from a mental aspect, kind of blows out the cobwebs each morning? And maybe you don't even do it in the morning. I do mine first thing when I wake up, because then I know it's done for the day.

Steve Sanduski: Absolutely, yeah. I'd say probably 9 times out of 10 my workout is first thing in the morning. Yeah. So definitely, it's not just for the physical benefits, but also for the mental. So, you know, when days are kind of stressful, it's always good to blow off some steam there with the exercise and work out and, yeah for sure, both physical and mental benefits.

Matt Wilson: Well good. So 80%, again in 2019? That's the goal?

Steve Sanduski: That's the goal. Yeah. That's the goal. And I'm 100% so far year to date.

Matt Wilson: All right.

Bill Keen: It's still early, but that's okay.

Steve Sanduski: It's still early. That's right.

Matt Wilson: Yeah. Yeah. That's great.

Bill Keen: Really good.

Matt Wilson: Well, you know, it is a start to a new year. I'm always fascinated by stock market history. So I've got an interesting fact. So this is first part of January, or at least in this podcast. And one of the best performing stocks over the last decade, and one of the largest companies, actually it was the largest company at one time, was incorporated in early January in 1977.

Matt Wilson: Any guesses? I kind of gave it away. But any guesses to who that is?

Bill Keen: He made it easy on us. Maybe, unless I get it wrong and then I'll be eating crow here.

Steve Sanduski: I know what my guess is.

Bill Keen: My guess is something that you can take a bite out of.

Steve Sanduski: Ooh. Well, my guess is different than that.

Matt Wilson: Oh.

Bill Keen: Which would be Apple. So just to clarify for our listeners.

Steve Sanduski: Okay. You might be right Bill.

Bill Keen: Talking in riddles here, or something.

Matt Wilson: That's the name of the company. You wouldn't actually take a bite out of your iPhone.

Bill Keen: Well, very true. Very true.

Steve Sanduski: Yeah, you may be right there Bill. I was actually going to say Microsoft, but I'm thinking maybe Microsoft was incorporated earlier than that.

Matt Wilson: Well, it is Apple Computer. It was incorporated January 3rd, 1977.

Bill Keen: January 3rd. Okay.

Matt Wilson: You know, and I thought that was interesting. One, because Apple was the largest company in the world, and it was the first company to hit one trillion, in terms of market capitalization back in the 3rd quarter of 2018.

Matt Wilson: But Apple is making news for a different reason now. It's down 40% since they hit the heralded one trillion dollar in market capitalization, which is pretty crazy.

Bill Keen: Wow. That's a big swing, isn't it?

Matt Wilson: Yeah. It is. And it isn't the first time that's happened.

Bill Keen: With Apple? Or with other big firms?

Matt Wilson: With other large companies. So in 1999, so did your stock Steve.

Steve Sanduski: Yes. My stock.

Matt Wilson: Microsoft became the largest company in the world, by market capitalization in 1999. And within a year, by the end of 2000, it was down 60%.

Bill Keen: Wow.

Matt Wilson: In a year. And the reason I bring that up is because, one, we are experiencing a downturn in the market and we are going through some volatility, but so many times people want to say this time is different. And there's so many examples from just the history of the markets where we can point to, "No, it's not different. It's just, you're living in the moment, so it feels different."

Bill Keen: In the details probably.

Matt Wilson: But this has happened before. Yeah.

Bill Keen: Like some details specifically are different, but the fundamentals-

Matt Wilson: Even Microsoft and Apple, they're really not. I mean, they're different companies, but tech companies, became the largest company in the world. Now that doesn't always happen where you instantly start going down in value, but there is something to be said about companies that do get to a certain size, how sustainable is that and how much maybe anticipation about the future gets built into it. And markets do punish companies when they don't perform.

Steve Sanduski: Here's another quiz for you along the same lines of what you just had there Matt. What is the largest company by market capitalization today?

Bill Keen: The largest company today?

Steve Sanduski: Yeah.

Matt Wilson: Is ... gosh. I just saw something that was tweeted out earlier today, but if I had to guess, I was going to say Amazon.

Bill Keen: I was going to say that too, but I thought they'd been punished pretty good here recently as well.

Steve Sanduski: It's Microsoft.

Matt Wilson: Ahh, I was going to say Microsoft.

Matt Wilson: I guess it depends on the day.

Steve Sanduski: Sure. Yeah. And by the time someone is listening to this, it might not be Microsoft. But, yeah, you mention that, I think you said they were the largest company in the world back in 1999 and then they lost that throne for many, many years. And now they've snuck back into the top. Again, it changes from day to day, but as I'm looking at this, it's got Microsoft number one, Apple number two and Amazon number three.

Matt Wilson: Yeah. Wow. Well maybe not, but for today I guess, with Apple.

Steve Sanduski: Yeah, they're getting hammered.

Matt Wilson: But, I mean, and this is interesting. We talked about GE last year on the podcast. And GE at one point, within the last 20 years, was the largest company by market cap. And they're not doing too hot. So there is something to be said about that. You know, it's just an interesting fact. I mean, ExxonMobil also had the same performance history too. Became the largest company by market cap. And then went through significant periods of under performance after that as well.

Steve Sanduski: It's kind of like the building a new magnificent corporate headquarters indicator.

Bill Keen: That's right. Right.

Steve Sanduski: You've seen this happen many times when a company is doing fantastic for years, then they decide to build an amazing corporate headquarters and that is like the pinnacle of their business and then things fall off. And it's exactly what happened with Apple. They created that big spaceship campus out in Silicon Valley, and sure enough within about a year or two of it opening, they've now cratered. And I think there's multiple examples of companies that build wonderful headquarters. And that was almost like a leading indicator or, "Oh, they've just reached the peak".

Matt Wilson: Yeah. It is. Kind of interesting how ... you know, some of these maybe things, correlation and causation. We talk about that a lot. There's a lot of factors that maybe come into play, but don't necessarily have the same impact that other things have.

Matt Wilson: But, you know, the Apple just conversation, the reason their stock has been selling off is a little bit about what we wanted to talk about today. And that is, what are we going through? This level of volatility that we've had since the beginning of Q4 in 2018. And even now experiencing some of that in the beginning of 2019. And Apple basically came out and pre-released their earnings or at least provided some guidance well before their earnings report was to be expected and said, "It's not looking good and we're blaming it on the tariffs."

Bill Keen: Right. Why do you think they did that? Do you think they wanted to soften the actual announcement, getting out ahead of it like that Matt? Or was there some other alterior motive for doing that?

Matt Wilson: Yeah. It sure seems like it, because it definitely wasn't a good announcement, so it wasn't like they were trying to just get everyone excited. So it'd be an interesting tactic if they decided to say this and then came out with better than expected earnings. That would be kind of interesting. So I'm guessing they just really wanted to set the expectation and the stock price is getting hit pretty hard, which it is, stocks are up fundamentally, based on what they earn. And if your earnings expectations are going down, there's maybe in Apple's case, there was a lot of earnings expectations priced into it. And now, those expectations aren't looking as good.

Matt Wilson: You know with Apple specifically, China was considered a big growth market for them with their iPhones. And if the tariffs are making it where it's a lot more expensive for them to do business there, in addition to bringing their product over here to the US to sell it, that's definitely going to weigh in on their future sales.

Bill Keen: So I think this points out the reason why we always say, "Be very diversified", doesn't it?

Matt Wilson: It does. I mean, a company like Apple really could hardly do any wrong for last 20 years. You know, you go back to early 2000s. The stock price was extremely low because it wasn't looking too hot. And they came out with the iPod and iTunes and now the iPhone and iPad and everything else since then. They became the largest company in the world and the first company to hit a trillion dollars. But they're not immune to, one, to the political climate, which is what the China trade war has proven. And that really has been one of probably the bigger pieces as to what's causing some of this volatility. And we'll talk about some of the others.

Matt Wilson: The big headlines that we're facing today are, its corporate earnings guidance has started to come down and some of the economic growth expectations are starting to come down. Now they aren't negative, they're just, expectations are starting to slow down. And then we have the federal reserve raising rates. And that combination of all those different factors created a very volatile Q4.

Matt Wilson: So much so that it was the most volatile quarter that we've had since 2008.

Bill Keen: And we weren't, investors weren't prepared for that, or at least they had been lulled into a false sense of security. Although we've been talking about that clear back, probably 14 months ago, I think we started warning folks that this low level of volatility just is not normal. That's not normal.

Matt Wilson: Yeah. It isn't normal. And we can go back to 2008 and say, "Yeah. There was", Q4 of 2008, which was worse than Q4 of 2018, but what's interesting is, we have to go to the depths of the financial crises. I mean, we're talking back then, there was, the financial system was completely frozen. And we experienced a quarter very similarly in terms of performance and in terms of sentiment as well like that. And we don't have any of those issues.

Bill Keen: Right.

Matt Wilson: I mean, we're talking a trade war with China which, yes, there's costs to that and there's companies like Apple that are expressing their concerns, but when we have the financial system melt down in 2008 and early 2009, that was creating unprecedented levels of volatility and people are comparing it to that. But economically, we're in a much different spot than we were back then.

Bill Keen: Right. We talk about earnings and it's great that you mention that, because fundamentally, that's what, the markets always trade back to the earnings of the underlying companies. We've quoted in prior episodes going back many, many years, decades of time, looking back at the, kind of a chart of the long term market compared to the chart of long term earnings. And they're just right on top of each other.

Matt Wilson: Yeah.

Bill Keen: So my question to you is, if earnings projections have come down, where were they? And where are they now? And are they anywhere close to a recession? Because I think this is shocking information to see just how much earnings have been growing and what the new lowered estimates still are.

Matt Wilson: Yeah. Based on data at the end of the year, it was looking like 2018. Now we won't know the data until sometime into March of 2019, what earnings growth was in 2018, because earnings reports for 2018 aren't coming out as we speak in Q1. But it's estimated to be over 20% earnings growth in 2018. Which is phenomenal.

Bill Keen: Right.

Matt Wilson: Now, that was partly driven by the tax cuts. That did help. But there was also revenue growth. Which was top line. And revenue was growing. And retail sales, when it came out right after Christmas have been phenomenal too. So those things have all been positive factors in the market.

Matt Wilson: Now earnings expectations in 2019. Now they did probably hit closer to 12, 13% and are now down closer to 9, so they're still positive. It's just expectations came down. Now does that warrant the 20% sell off in the stock market? I don't believe so, but I don't get to decide what the market does based on what earnings expectations are.

Matt Wilson: But just the fact that we are having some of this volatility doesn't mean there's something wrong. The volatility, as Bill mentioned, is a feature of the market. It's how the markets function. So when we don't have volatility, that almost is now, something's wrong.

Bill Keen: Right. It's almost, it's weird to say it, I know. It sounds counter intuitive, but it's almost scarier when there's not any volatility. Things are just progressing forward, marching forward with no downside volatility.

Bill Keen: You hesitate to say these things, because no one wants to see account balances go down. And I know that's where our listeners and investors, including ourselves live, is by looking at our investments and the values of those investments. But having gone, what was it, 10 years or so without what technically is defined as a bear market, which is that 20% decline from the highs, probably okay that we got that. And I think technically we did get that. Is that correct? The S&P actually, at this point, did have a 20% pullback.

Matt Wilson: Yeah. At this point, yes. The S&P was down 20. Just barely. The DOW didn't hit down 20, so for the people that are, the purists out there, maybe the DOW has another retest of the lows and we hit that finally down 20. As you mentioned, it is good for the markets to have these pullbacks. It does wash out speculators. It does reset expectations. It does reduce leverage in the system.

Matt Wilson: I think that was also another driver of some of the volatility was, there are investors out there, there are individuals and there's professional investors and institutions. And in some cases, they use leverage. And when they're using leverage, they're basically taking a loan against their investments and buying more. And when your investments go down, well the person who gave you that loan is asking for more collateral. And you have two options. You either deposit more money or you sell some of your investments. And most likely, people sold investments. Which that creates more volatility.

Bill Keen: That's right.

Matt Wilson: And a little self fulfilling prophecy. And that's why we say, eventually the sellers will be exhausted, because that leverage got reset.

Matt Wilson: But going back to the volatility and from a historical perspective, it feels like 2018 was just an extremely volatile year. And it was compared to 2017. So we looked at daily moves of plus or minus 1%. And do you know how many we had in 2017?

Bill Keen: So in one trading day, the market had a range of 1% during that trading day. Is that right?

Matt Wilson: Yeah. It was either up 1% or more, or down 1% or more.

Bill Keen: In 2018.

Matt Wilson: Well, this is in 2017. So how many of those did we have in 17. So we had 8.

Bill Keen: Okay.

Matt Wilson: 8 days where the market was either up or down 1%.

Matt Wilson: In 2018, we had 62.

Bill Keen: Okay.

Matt Wilson: So 8 times more. But here's the key. You know what the historical average is going back to the great depression?

Bill Keen: I would say closer to, the 60 number.

Matt Wilson: 59.

Bill Keen: So normal. Normalized.

Matt Wilson: So this year was barely a little bit more volatile than a historical perspective. And do you know what years ... in the last decade, 2015 and 2011, both were more volatile. But no one seems to remember those years. It's just, the moment we're in right now is how we express and how we feel things. And this isn't necessarily what clients are telling us, but this is what the people on TV all want to squawk about and everyone on the internet who's got a keyboard is just talking about how the world is coming to an end and there's this bubbles everywhere. And the reality is, yes, there's always froth in the market somewhere, but this system that we've got works pretty well. But volatility is not something that, it is scary, but it is not something to be unexpected.

Bill Keen: That's right. And if you talk about a, even when you mentioned that 1% per day, just to put that in perspective on a DOW that's say 25,000, that's 250 points in a day. So where, a lot of folks remember when the DOW was well under 1,000 years ago. so, sometimes their mind connects the point moves as if they were 30 years ago and the point moves just aren't as big a deal, at least percentage-wise as they were 20, 30 years ago as well. So a lot of it is perspective and perception that folks are trying to live with day in and day out with this.

Matt Wilson: I mean, it is. The media will focus on the points, because those are scarier than the percentage. They want to talk about, it was the highest or largest point gain. And those just aren't meaningful. You have to put things in a percentage to be able to compare it to history.

Matt Wilson: You know, the other factor too, and this is just the nature of the financial markets, but they go up over time. And people's balances are bigger now than where they were 10 years ago. So a smaller decline feels worse because the dollars are bigger.

Bill Keen: That's right.

Matt Wilson: The question that we have to ask ourselves is, "Okay. Where do we go from here? Is this market going to just keep having extreme volatility?" And I think we are going to have continued volatility. I think the trade war is still going to be a hot topic, especially as these earnings reports come in. And that maybe needs to be the catalyst for the market to finally break out of this range, is a resolution to that. That is definitely one thing. The Federal Reserve as well, they raised rates in December. And it was interesting, because the market at that time was down about 12% from its recent high, and they raised rates. And it was the first time ever where the market had been down that much and they decided to raise rates.

Bill Keen: They went ahead and raised rates. And the signal though, in that scenario is that the underlying economy is actually plugging along. That things are good.

Matt Wilson: Yeah, what they're saying is, things are looking well and they do expect inflation to pick up and that's why they want to have rates higher to stymie that. Now, there is some discussion around, inflation for the last decade has been kind of around 2% or less. And every expectation was with the aftermath of the financial crises and all the liquidity that was pumped in the markets, that inflation would just skyrocket. And that just hasn't happened. And there's now some discussion around, "Is our inflation measures that we've been using, are those even relevant anymore?"

Matt Wilson: Now, it's always funny, when those conversations start to happen, that's typically right in time for the inflation now to start to pick up again and people say, "Oh, yeah, no, it always works that way. We just went through a longer period where it didn't result the way we thought it was."

Steve Sanduski: This whole thing about inflation, I think, is kind of interesting because one of the things that I notice and it just strikes me is, while the price that you pay for something ... like popcorn. That's the one that comes to mind. When I go buy popcorn, I buy it in a box and there's like six packages of popcorn. Well now when I go to the store, I still get my six packages, but they're now single serving size packages of popcorn. And I know exactly what they did was, they actually took a price increase, but they changed the package size to basically camouflage it. And I suspect that that happens a lot with consumer-packaged goods firms, where if they want to take a price increase, they're not going to keep like a 16 ounce package of whatever and just take the price up 3% or 4%. What they're going to do is they're going to make it a 13 ounce package and they're going to maybe keep the price the same, but now they give you less. Or they do some, they tweak it like that, where they're actually giving you a price increase, but it's hard for the consumer to actually know what's going on.

Matt Wilson: Yeah, that's a good point. I mean, those are hidden costs that are built into the system that we don't see. And maybe in the food example, maybe that's better for our waist lines and better for-

Bill Keen: Oh, that's their objective. Yes. That's what they would say.

Steve Sanduski: It's altruistic, for sure.

Bill Keen: You know, we talk about inflation, and it brings to mind, Matt mentioned in one of our tax episodes early on, and speaking of being tricky if you will, or under the radar Steve like you just mentioned, the government's rolled out. A new inflation measure to index the tax brackets. So each year typically, the tax brackets themselves go up a little bit to offset inflation. Therefore, if you make a little bit more money each year and the bracket increased, you wouldn't be up into the higher, the next bracket. Although they've now changed that. I think it did go into effect this year Matt? In 2019.

Matt Wilson: Yeah, with the, 2018 it started.

Bill Keen: In 18. Okay. It started. So now the brackets based on this new inflation measure won't be going up as much as they had in the past. But by a different measure. And then there's been talks too that that might be the way that they rotate over and start looking at the social security inflation adjustment, so that slowly, and without a lot of fanfare, there's more tax revenue coming in, there's less social security going out. I don't know if that's going to be enough to fix these programs.

Matt Wilson: Well they compound over time, for sure. Yeah. Yeah. 10, 15 years, those add up. Now there's one thing. This, over the holiday season, kind of read about this online, which I thought was kind of interesting. One thing that maybe hasn't inflated. Delivery pizza.

Bill Keen: Oh. Okay.

Matt Wilson: But this was pointed out online. I like to read Twitter and what's out there. So the movie Home Alone. 1990 came out. And they had a family of 15 people there ready to go on vacation. And of course, Kevin, Macaulay Culkin, gets left at home and that's the whole premise of the movie. But his father ordered pizza and the pizza was, there was about 10 pizzas he ordered and the cost, $122. That's $12 a pizza.

Bill Keen: So there hasn't been a whole lot. My question though, next to Steve's point was, have those pizzas gotten smaller?

Matt Wilson: Maybe they have. Maybe the ingredients are cheaper. Not as high quality.

Bill Keen: Right.

Matt Wilson: Delivery pizzas, probably around that same price. Pretty interesting.

Steve Sanduski: Hey, you can go to Pizza Hut and you can get the large two topping-

Matt Wilson: 7.99.

Steve Sanduski: That's right. Large two topping carry-out special.

Bill Keen: That's right.

Matt Wilson: You know. Cheese in the crust and everything.

Bill Keen: That's the productivity of capitalism and competition right there.

Matt Wilson: That's right.

Bill Keen: But it all does speak into it, doesn't it? We're talking today about the environment that real investors, many that are retired and living off their assets, are having to, at least contemplate. Now we hope and we believe that majority of the clients, if not all of them that are with our firm have confidence in their financial plan. And it's an updated financial plan and they're living within the means and confines of that financial plan. And that the downturns in the markets like we're going through, have been planned for and built into those plans. And that's great. But we still have to live in it day to day, don't we? With real emotion and with real perspective. This isn't just a theory. We don't get to just go on TV or come on a radio show or a podcast and theorize about how everything should work. We have real people, including our own families, our own clients, that are living through this, taking action with real dollars and real strategies that we have to navigate each and every day.

Bill Keen: And that's why I think it was important that we did this episode today, and that we're talking about the different aspects to what we're going through at this moment.

Matt Wilson: Yeah. And as you mentioned being diversified earlier, when we're talking about Apple. I mean, also diversified among different stocks and different asset classes there. But different types of investments. So we own fixed income in the portfolios, especially for retired people that are pulling out money. And it's precisely for this reason. Not only does fixed income provide an income stream. Along with dividends. So that's a piece of the overall plan and income stream. But they also provide a hedge against this volatility. You can look back at the last decade and, yeah, when markets are going straight up, especially like 2017, there's always questions about, "Well, why do we own fixed income? It doesn't do much." And it's because those are assets that you loan to somebody and they pay them back with some interest. And years like 2018, which from a calendar year, wasn't all that bad. It was just the last quarter experienced all the volatility.

Matt Wilson: But fixed income during the last quarter was up. And that's why we own that. We own asset classes that do different things at different times to offset that volatility. And in addition to, it provides a bucket where we can pull income and money from when we need money out of the accounts and the markets are down and we don't want to have to sell an investment when its down.

Bill Keen: And the idea, which now everyone probably has this tucked deep away somewhere in their minds, or maybe it's not so deep. Maybe it's right on the surface that says, "Well, why can't I just participate in the markets when they're going up and someone figure out how to get out at the top and get back in when it's done acting up and put their money in fixed income during those times and then switch it back over." Right? Is that the age old fantasy that everyone has?

Matt Wilson: It is. It is very difficult to do. And there is so many emotions involved. And the reason it's hard to do is because the market will give you, for every 50% decline, there are 99 fake declines that you think are the next 50% decline. So every time it goes down, you don't know if it's down 5% if this is the start of the next 50% or not. All you know is that it's down 5%. And you can go back. And we've actually looked at, over the last 40 years, markets have been down, during the year, anywhere from 5 to 20%. 80% of the time.

Bill Keen: Okay.

Matt Wilson: 80% of the time it's volatile, is basically what that means. Now the average calendar year return during that period is almost 10%.

Bill Keen: Despite the volatility, the interim. Yes.

Matt Wilson: From point A to point B, it makes 10%. But to get there is not a straight line. And so, if you're trying to time to market, you're constantly chasing your tail and for all of the, "Oh yes, I knew it was going to happen", there's going to be the 99 times when it didn't happen. It just went right back up. Which happens all the time in a long-term perspective, but on a short term perspective, most of them are what we call these head fakes.

Bill Keen: So are you telling me Matt that as long as I have my plan in place and I'm living within the parameters of the plan and it's accurate and updated and I have a diversified portfolio that's stewarded by a quality fiduciary firm, that I would actually be better off in most all cases, certainly from an emotional standpoint, to not be paying attention to these accounts on a daily, weekly, monthly basis. Right?

Matt Wilson: It is in your-

Bill Keen: And you'll probably just be looking at it once a year, maybe.

Matt Wilson: Once a year. I mean, once a quarter is okay.

Bill Keen: Yes.

Matt Wilson: It's still four times a year. But there's that balance between being prudent, feeling like you're paying attention to reacting to it. Because on a day to day basis the reactions are going to be tied almost entirely to your emotions. And outside of adding money to it, there's not a lot that you can do on a day to day basis. Just kind of monitoring things over longer periods of time do provide a little bit of perspective. And you don't live through that emotional roller coaster on a day to day basis.

Bill Keen: That's right.

Matt Wilson: And you know, people are retired, they're pulling money out and they don't like to see some of this stuff. I mean, people that have been retired for a long time, they're maybe a little bit more used to it, where new retirees could be a little bit more sensitive to it.

Matt Wilson: You know, I've looked at data too. And we've talked about this before, but if you invested right before major market melt-downs, we can go back to 1987. If you invested right before, well since that time, so 1987 to now. So I mean, we're talking 30 years. The annualized total return. 9.4%.

Bill Keen: So you had the worst possible luck of anyone and you got your asset and you invested it right before one of the worst downturns ever.

Matt Wilson: Oh yeah. I mean, you can go back to the 2000 peak. So we're talking invested right at the high in 1999 to now, so 18 years, 20 years almost. You're looking at 5% annualized return in the stock market.

Bill Keen: Okay.

Matt Wilson: So lower than long term average.

Bill Keen: What about January of '08. Let's say someone came into their assets all at once in January of '08 and they invested right before, I would say arguably the worst now time since the Great Depression. What does that kind of annualized return look like?

Matt Wilson: It's almost 9%.

Bill Keen: So having the worst possible timing and the worst possible luck, making that investment, all-in, never adding anything else, and you're somewhere between 8 and 9% return still.

Matt Wilson: Yeah.

Bill Keen: As long as you didn't panic and sell and mistake one of these temporary declines for a permanent loss and sell your assets.

Matt Wilson: That's right. And we aren't arguing for someone to have all their money in the stock market by any means, because everyone's risk tolerances are all, they're all unique to them. But we are trying to talk about volatility. And we can give these long term perspectives, but we do have to live in the moment.

Matt Wilson: Now where do we go from here? Now here's some positive things. So we've just basically gone through this 20% correction, the S&P500. And maybe it's not over. It could go down further from here. But, when we do have, we do have history to rely on. And we can look back at previous periods when we've had bad quarters like this. And not only have we had a bad quarter... so earnings, I talked about earnings going up over 20% in 2018, at least that's the expectation at this point. Well, the valuations of the stock market are now very attractive.

Bill Keen: Right. Right.

Matt Wilson: That is ... so now the stock market, because earnings are higher. Stocks are a lot more attractive now than they were three months ago. And if you go back to 1929, the S&P500 is right in line with it's long term average, on its PE ratio, but over the last 30 years, so going back to 1990, we're actually 16% lower than what the average has been since 1990, in terms of valuations. So that is a very good positive. And in addition to that sentiment, is it's a contrarian indicator. So when people are very optimistic about the stock market, that's not necessarily a sign that things are going to crash, but typically the expectation is that the performance won't continue. Because people are happier when things are higher. Now sentiment is at extremely low levels that bodes well for stock prices going forward.

Matt Wilson: But if we look at and say, "Okay. How had the market performed after 10% declines in a quarter." So the S&P finished down right around 13% in Q42018. So now we look at what happened after that. And we can go back to the Great Depression. And there's lots of examples of quarters like this. The average return over the next year is just south of 16%.

Bill Keen: That's the average return after the pullback.

Matt Wilson: After. 15.94%. Now that doesn't necessarily mean we're going to get back to all-time highs. But what that does tell us is, we have to ask ourselves, "Okay. Is this going to get worse and we should sell our stocks right now." Well, history has told us this is the worst time to be selling stocks.

Bill Keen: The only thing I'd say there is, we definitely will get back to all-time highs. It's just a matter of when, right.

Matt Wilson: That's right. I mean, you make the average return and get back, it doesn't just eclipse everything, but it does get everything back to where it was.

Matt Wilson: Now that doesn't mean it won't in 2019. It's more about, things perform extremely well. I mean, after 2008, the market was down 22% in Q4 2008. It was up 24% the next year.

Bill Keen: Right.

Matt Wilson: But it started off Q1 down 11.

Bill Keen: It kind of reminds me of 2016, when we opened the year up, I think we were down 10% plus, to open the year in 16, right? And then we closed up nicely for the year.

Matt Wilson: Almost 12%. Yeah.

Bill Keen: One last perspective thing before we wrap this show today. I went back and I looked at the history of US bear and bull markets since 1926. Because I again wanted to get some perspective on just what's the magnitude. Why are we participating in the equity markets at all, if they create such tension and anxiety at times. And what is it that we're afraid of, what is it we hope to avoid? What don't we like? But then what do we enjoy? And what we enjoy is the long term, the positive returns Matt talked about over periods of time. And the bull markets. No one cares about volatility when it's going up. So yes, it's volatile, but it's going up. That's fine. It's the volatility on the downside that we don't like.

Bill Keen: But I went back and looked at all the bull and bear markets, which again are defined as, a bull market from the lowest close reached after the market has fallen 20% or more until the next market high. That's a bull market. And then a bear market is when the markets go down 20% from their previous high.

Bill Keen: And just to give you an idea, I won't go through each one of them. I have it on a chart here and it's impactful, but the average bull market period lasted over nine years, with an average cumulative total return of just under 500% over that nine years. The average bear market lasted 1.4 years. And that does include some of the deeper ones. And it includes the Great Depression too, which used the data on the downside.

Bill Keen: But to the average bull market lasted over nine years, the average bear market lasted 1.4 years, including the Great Depression, with an average cumulative temporary decline of just over 40% in those periods. But it only lasted 1.4 years, compared to the bull market of nine years where the market advanced close to 500%.

Bill Keen: So if you look at this graphically, you'll see the positives just dwarf the downturns. But again, the downturns feel so much more real. And it's kind of like sitting in class when you were a kid, if you were like me at times. I loved school. School was great. But I would watch the clock in class. And that hour would seem like it was an eternity. Time slows down, it feels like, when you're going through things that you're not super excited about going through. When you're going through things that are fun, it feels like time morphs. Time just speeds up when you're enjoying things. And that's what I see happen with clients that are going through these bull and bear markets. It's out of sight out of mind when things are going straight up, so that the nine years of the bull market might almost feel like it just slipped by, while the, call it 1.4 years on the average bear market feels like an eternity.

Bill Keen: Not that I'm saying we're going to be in for this for another year or some average number, but I'm just saying, that perspective when we're trying to keep people on a long-term plan and help them achieve their goals is important to talk about and bring to the table. And we take these corrections and the things that we're going through very seriously. We watch it closely. And I think we did a good job today talking a lot about what's going on today as well, not just the long term. But the long term does matter, because it's the reality. It's the reality. And someone might say, "Well I'm not, I don't have 90 years to invest. You guys are quoting stuff back from 1926." Well, if someone has 10 years to invest or 20 years of life left or 30 years of life left, there's a good portion of their assets that is long term money. Right? I mean, it is longer term money. They don't need all their money back today.

Bill Keen: And of course, we always say, "If you have money you need within the next five years, keep that out of the market anyway." That's always been our stance. To avoid some of these, the downturns with money someone is going to need back. So Steve, I think you can tell that we're passionate about what we do and helping people stay the course during good times and especially in times like this.

Steve Sanduski: Yeah. And I think this was a very timely episode. And if I could just summarize some of the things that you guys have talked about here today. So one is volatility is normal and expected and it's planned for in the way that you guys manage you clients portfolios. A second thing is, time is on your side. And so while we may get caught up in the day to day ups and downs of the financial markets, the reality is that if people have a longer term time horizon and they keep that time in perspective, that over time markets tend to go up. And then, the third is, and Bill you were just talking about here a few moments ago, is just to maintain that proper perspective, to keep things in perspective and to understand what's the money for. And to also understand that even though the markets go down and client portfolios may go down, it's probably not going to impact your standard of living, unless we live with another depression, which no one is expecting here.

Steve Sanduski: So having that proper perspective and understanding that you're not likely to run out of money and that the main role of what you guys are doing there at Keen Wealth advisors is, you guys are keeping a close eye on what's happening here and you're monitoring these things. And so, people are in good hands. So I think this was a good show to let people know what's going on and not to be alarmed here.

Matt Wilson: Yeah. I'd also like to mention too that we're here to talk to anybody that wants to talk about what's going on with their investments and what's going on with the market as well. It's never a bother when anyone wants to reach out. Because this is, it's this emotional when you see these types of things happen and you see balances in your account fluctuate like they have been. We're available to chat with people and just talk about everything that's going on, because I believe that it actually helps people to talk through these things. Even if the solution is, "Yes, just stay the course. But just, let's talk about what's happening and maybe get some concerns off your chest and run through all the numbers."

Steve Sanduski: Excellent. Great. Well guys, why don't we wrap there. And appreciate, great show today. Very valuable information. Very timely on what's happening in the financial markets. We'll look forward to the next episode on Keen on Retirement. And as Matt just mentioned, if you have any questions or comments, please feel free to reach out. And you can visit the website at KeenonRetirement.com. You can also contact us from the website. Fill out the little form and be happy to get back to you right away. You can also give us a phone call as well.

Steve Sanduski: So guys, thanks. And we'll look forward to the next episode.

Matt Wilson: Thanks Steve.

Bill Keen: All right Steve. And Happy New Year once again to our listeners.

Steve Sanduski: All right. Happy New Year everybody. Take care.