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SENIORS/BOOMERS NEWSLETTER

'the retirement experts'

November 2015

OVER PROMISING & UNDER DELIVERING

Ah, November. One year away from the next general election. Oh, be still my beating heart!

Is the Market Ready to Roll Over?

I recently conducted a workshop for the Investment Group at the Senior Center in Flemington. I thought my regular readers might benefit from the material that I presented. So, in a condensed version, here it is.

CAUSES OF A MARKET CORRECTION?

1. FED TIGHTENING

Raising rates makes the cost of borrowing money more expensive

2.CRISIS EVENT(S)

3.GLOBAL RECESSION (think 2008-9)

4. U.S. RECESSION

A decline in economic activity lasting 6 or more months
A decline in GDP
A decline in industrial production
A rise in unemployment
Stagnant wage growth
Lower corporate earnings
Stock sectors selling off
FEAR feeding PANIC selling

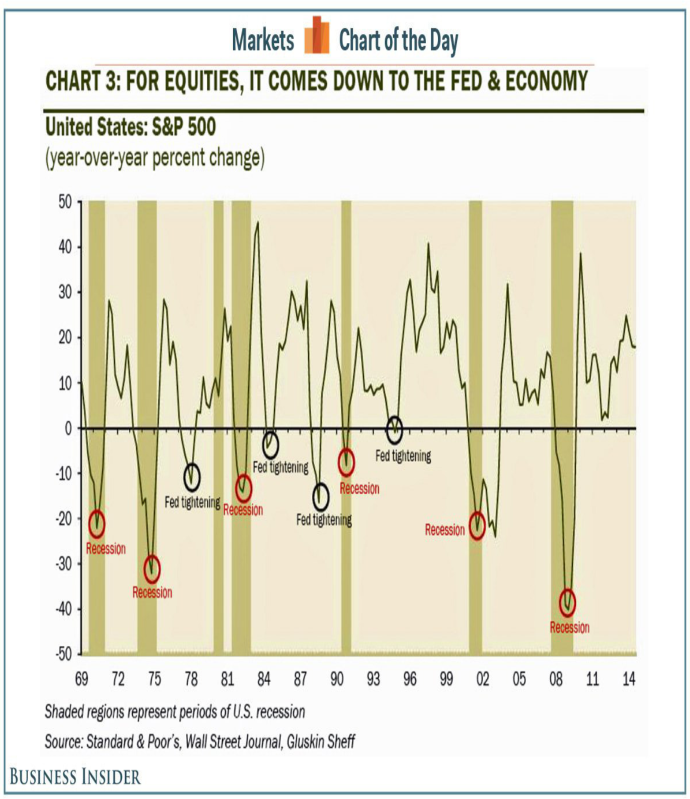
5. EXTREMELY HIGH P/E RATIOS

As you can see from the chart on the preceding page, current P/E ratios aren't 'crazy' high. For the most part they are within historical norms.

In fact, if we take each other point from the causes of market corrections, there is nothing indicating that we are headed for one right now.

1. The Fed is not tightening
2. We do have many walls of worry around the world, but none would be considered a global crisis event (at least yet).
3. We do not have a global recession. Even China, for all the angst, is still expanding...as is the USA.
4. There is no recession in this country right now, or in the foreseeable future.

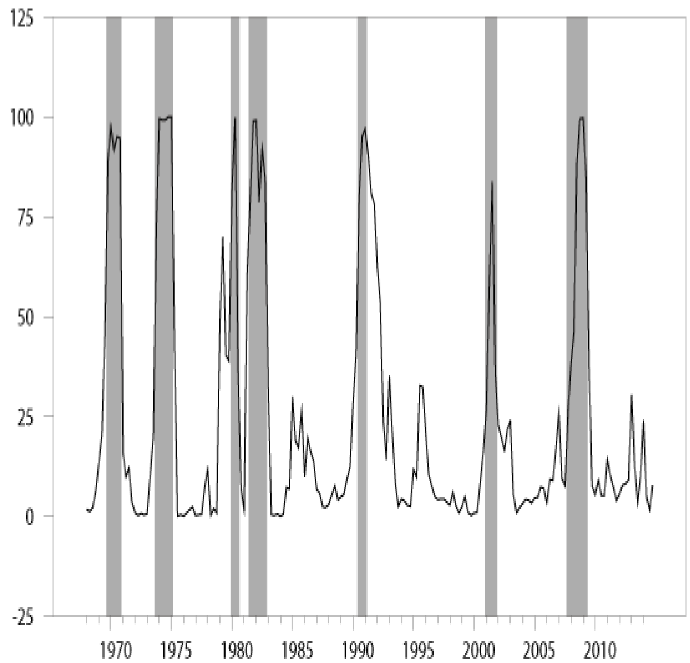
This next chart is very clear on the causes for a market correction. Going back to 1969, there is a direct correlation between markets going up or down and the reasons. In every instance, the market re-acted negatively to recessions and/or Fed tightening. Again, neither is currently present



The Federal Reserve maintains charts (who would have known) which track recessions.

This GDP-based recession indicator index rose a little with the latest GDP figures, and currently stands at 13.3 percent. There has been a modest but temporary jump up in the index during the first quarter of each of the last three years, reflecting in part the weak winter GDP numbers.

Even so, a value of 13.3% (see chart below) is not particularly high by historical standards. A paper by Marcelle Chauvet and James Hamilton concluded that the U.S. could be said to have entered a recession when the index rises above 67 percent.



Some further facts about market corrections:
*Since 1950, the S&P 500 has had 33 corrections of 10% or more
*Has spent 6,587 days in correction
*Has spent 17,000 days rallying

Between 1975 – 2000
*The market fully recovered from corrections in 2 years or less
*Corrections provide investors opportunities for buying stocks at a discount

Finally, this last chart will illustrate the frequency with which we experience corrections. Again, you see the number we have had since the market bottomed in March of 2009. The important thing to take away from this chart, however, is its upward slant, giving this market a bias for further gains.

When to Buy a Stock.

(what to look for:)

Price/Earnings

$10 stock with $1 earnings = P/E 10

Price/Earnings Growth

Usually the higher the growth rate the higher the P/E

IT I

Free Cash Flow

IT I

This is the excess cash after paying all the company bills and taxes

IT I

Book Value

Total assets minus total liabilities

Price/Book

Company stock value divided by its book value

Earnings Yield

If a company earned $2 and it traded for $10 this would = 20% EY

Return on Invested Capital

$10000 needed for a business that returned $1000; this would = 10% ROIC. On the other hand,
$10000 needed for a business that returned $3000 would = 30% ROIC

When to Sell a Stock

You sell when the reason you bought the stock no longer exists.

Sell when your stock is fully valued and has little further upside potential.

It's a great time to sell when you have found something better to invest in.

Finally, sell a stock that has lost the maximum amount you were prepared to lose: Trailing Stop-Loss.

What's a Trailing Stop-Loss?

Trailing simply means the % you are prepared to lose and follows the stock price down AND up.

*This ensures you minimize your losses.

* This is how you protect your profits.

* This is how you maximize your profits

Here's an example:

You buy a stock at $25 and set your trailing stop loss at 25%

*The stock goes down to $18.75...YOU SELL.

*The stock goes up to $50, then retreats 25% down to $37.50...YOU SELL.

*The $50 stock falls to $40, but you hold on.

*The stock continues to rise to $100, then retreats 25% - down to $75...YOU SELL.

Here's a portfolio of 10 stocks over 12 months.

Stock 1	+ 20% gain
Stock 2	-80% loss
Stock 3	-76% loss
Stock 4	+10% gain
Stock 5	-60% loss
Stock 6	+285% gain
Stock 7	+30% gain
Stock 8	-99% loss
Stock 9	-85% loss
Stock 10	+55% gain

RESULT: 5 winners for 400% gain
5 losers for 400% loss
NET = 0%

Now, let's apply a 25% stop loss to each stock in your portfolio which you follow unfailingly. Let's see what the results on the same gains and losses would have/could have looked like.

Stock 1	+20% gain
Stock 2	-25% loss
Stock 3	-25% loss
Stock 4	+10% gain
Stock 5	-25% loss
Stock 6	+285% gain
Stock 7	+30% gain
Stock 8	-25% loss
Stock 9	-25% loss
Stock 10	+55% gain

RESULT: 5 winners for 400% gain
5 losers for 125% loss
NET = 275% gain

That's the power of working with trailing stop-losses.

Auditing Your Portfolio

All positions in all portfolios should be reviewed at least once/year.

Ask these questions:

*Are the reasons you bought still valid?
*Would you buy this stock again today?
*Is the company still a dominant player in their industry?
*Are sales/profits growing at the same pace as when purchased?
*Is the position size greater than 5% of your portfolio?
*Has the stock hit your trailing stop loss? (you may love the stock but if the market hates it – SELL).
*If you can't explain an investment to your mom or your kids, then it's too complicated for you to buy — or you don't understand it well enough to own it.