NORTHSTAR FINANCIAL PLANNERS INC.

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FINANCIAL PLANNING NOTES
CLIENT NEWSLETTER

"The four most expensive words in the English language are, 'This time it's different.'"

—Sir John Templeton

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WHY WEREN'T WE IN QATAR?

The 2018 market year is in the books, and it wasn't pretty. It wasn't anywhere near as bad as 2008, which was worse than going to prom with your mother. 2018 was more like going to prom with a second cousin.

Things weren't bad until the last quarter of the year, when volatility and sell-offs drove the S&P 500 to a 4.4% loss for the year. Worldwide, markets were down 9.4%.[1]

Losses were broad. The markets in every developed country ended down for the year, except New Zealand, which held flat. Overall, we saw 46 of the 47 countries tracked by the MSCI All Country World Index (IMI) fail to post a positive return. The outlier? Qatar.

Not only was Qatar the only up market for 2018, it was way, way up. It was up 27.1! The worst emerging market, Turkey, was down 41.3%, a spread of almost 70%!

Even more surprising, Qatar was one of the worst-performing countries one year earlier. For 2017, Qatar was down 12.5%. And that was in a very strong market year.

But we had no more than a very small percentage of our clients' portfolios invested in Qatar this year because, sadly, the crystal ball in our office is purely decorative. Without a working model, we'd have to go by the same technical and fundamental analysis the "experts" do, and it seems unlikely at the end of the 2017 that such analysis would have said, "Get into Qatar. Everything else is going to be down."

More likely, the types of investors prone to move money about to chase return might have very well decided to get out of Qatar in 2018 after their zero-star performance in 2017.

Part of the difficulty of operating without a crystal ball is you don't know what news is coming, and even if you did, you may not guess correctly how the markets will react. Over the course of the year, markets reacted to all kinds of news. Here are a few of 2018's big financial headlines:

Table 1: Financial News of 2018

January:	Oil prices hit three-year highs
March:	Fed raises interest rates
March:	Tariffs threaten profits
June:	Inflation rate hits six-year high
July:	Japan, EU sign trade deal
September:	U.S. consumer confidence at 18-year high
September:	U.S. unemployment lowest in 50 years
October:	Eurozone growth stagnant
November:	New pact replaces NAFTA
November:	Brexit chaos in U.K.

Now let's play a little game. Can you guess the market's reaction to each of these headlines? Did worldwide markets move up, down, or just ignore the news?

Don't peek! Look back at **Table 1** before moving on to **Table 2** …

We're on the honor system here …

OK, here are the results:

Table 2: Market Reaction to Financial News of 2018

Headline	Market Move
January: Oil prices hit three-year highs	Up (sharply)
March: Fed raises interest rates	Down
March: Tariffs threaten profits	Up
June: Inflation rate hits six-year high	Up
July: Japan, EU sign trade deal	Flat (slightly up)
September: U.S. consumer confidence at 18-year high	Flat (slightly down)
September: U.S. unemployment lowest in 50 years	Down (sharply)
October: Eurozone growth stagnant	Up (sharply)
November: New pact replaces NAFTA	Down (sharply)
November: Brexit chaos in U.K.	Down (sharply)

Some of these market reactions make perfect sense. While strong economic indicators drove the Fed to raise interest rates, that move signaled to the markets that the era of easy money (low interest rates) might be ending, leading to a slowdown in growth. And British Prime Minister's Teresa May's ongoing failure to strike a deal for the U.K.'s exit from the European Union (Brexit) provided the type of uncertainty that markets hate.

But many of these events led to unpredictable market reactions. Why did the markets not react positively to high consumer confidence? If fear of inflation drove markets down in September when extremely low unemployment (an inflation indicator) was reported, why did markets move up when we saw actual inflation spike higher in June?

These quandaries are the reason I feel blessed in this life to have majored in finance and not economics. It's a fun game to play: "Guess What the Market Will Do." You can make it a drinking game: Down a shot every time you guess wrong. Just be careful of alcohol poisoning.

One game you don't want to play is "How Should I Move My Money?" Oil prices are spiking. Is it time to move to cash? Tariffs are slowing imports. Should I sell my international stocks? Qatar is plummeting. Should I move my investments to Turkey? Given that the experts and conventional wisdom seem to be wrong at least as often as they are right, this game could lead to retirement poisoning. The best course of action is not to play.

—Steve Tepper

[1] MSCI All Country World Index.

WHY STAY INVESTED (WHEN WE KNOW MARKETS ARE GOING DOWN)?

Market risk isn't the only risk you face in your financial journey. You could avoid market risk entirely very easily: Stay out of the market. But can you grow your nest egg fast enough to retire when you want to and have enough money to last your lifetime?

If you're just stashing money in your mattress, you're going to have an inflation problem. On the other hand, you won't have any liquidity problems, particularly if you sleep on a waterbed.

If you choose alternative investments, like gold or real estate, you aren't really out of the market. You're just in a different market, with just as much, if not more, market risk than a diversified portfolio.

When you exit capital markets, you negate market risk. But the biggest risk you have burdened yourself with is ROMO, or risk of missing out. We have an abundance of empirical and theoretical evidence to support the conclusion that markets will rise over time at a rate well in excess of the inflation rate or the "risk-free" rate of U.S. Treasury notes.

During some periods, markets will fall. Those are great times to not be in the market, of course, but we have no idea when they will occur, how long they will last, or when markets will "hit bottom" before rising again. If you guess wrong on any of those variables, markets could move upward while you're sitting in cash (which I hope has had a chance to dry out since the waterbed incident). That's the ROMO.

Yes, markets went down last quarter. And of course we knew they were going to. We knew 100% for certain. And we also knew 100% for certain they were going down in 2016 when Hillary Clinton was about to be elected president. And we knew 100% for certain they were going to go down in 2017 after Donald Trump actually was elected president. We knew 100% for certain a bunch of times since 2009.

And we were wrong every other one of those times. Had we acted every time we were 100% certain and moved our money, we would have avoided last quarter's rout. And missed out on the greatest sustained bull run we've seen in our lifetimes. Not a good trade-off.

We don't know when we will be rewarded for the risk we take by investing in capital markets. And that is precisely why we get rewarded in the first place. It is very likely we will get that reward at very unlikely times—following bad news or during periods of uncertainty. And that's where we are at now. And that's why we are staying invested.

—Steve Tepper

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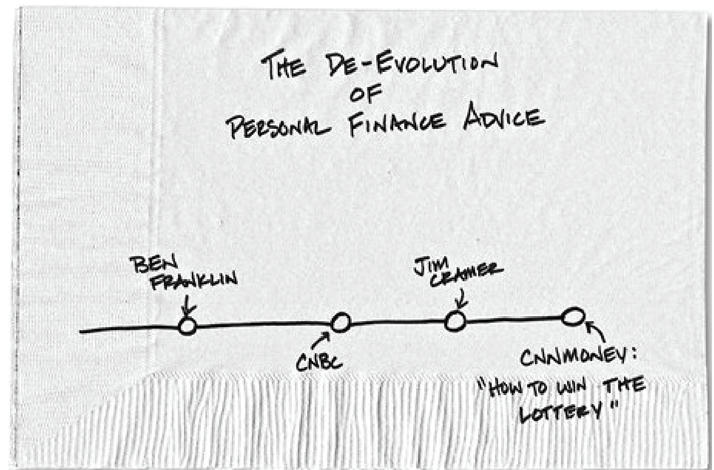
FROM CARL RICHARDS' NAPKIN BLOG



FINAL THOUGHT

"The charge is investing everything in one stock!"

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