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Rare Altitude

When extreme market levels, whether high or low, are reached, a range of investor sentiments tends to emerge. At this time of recurring new highs for the U.S. stock market, two particular sentiments can be seen. For investors who may not have been "fully" invested in the run-up to new highs, there can be a desire to increase allocations to stocks even if odds of some market reversal may be on the rise. For those who have participated fully in the run-up, there can be an inclination to reduce allocations even if evidence suggests that the uptrend is likely to continue. A review of some market characteristics can provide context for investment activity in the rare altitude of recurring new highs in a long bull market.

PERSPECTIVE

The Dow Jones Industrial Average ("DJIA") reached a peak level of 26,828 in October 2018 before a -18.8% correction interrupted the bull market that began in March 2009. The DJIA price trend from that peak until now is shown in Chart I. As the commonly accepted definition of a bear market is a decline of -20%, the bull market technically was still intact. A notable recovery developed after the low of last Christmas Eve, but the prior peak was not surpassed until early July. It was not until mid-October that a sustained uptrend beyond the prior peak was established. Even then, the subsequent high has been only about +5% above the level first reached over a year ago. Nevertheless, the DJIA has been at a rare altitude for enough time to bring out investor sentiments that range widely from pleased to perplexed.

The odds of successfully implementing portfolio changes in anticipation of market tops or bottoms are not favorable. The case for adhering to an appropriate asset allocation through the market cycle is shown in Table I. The current bull market for the DJIA has extended now to about 10¾ years. Gains were posted in 56% of those 2,709 trading days. If one missed only the 10 best trading days (0.4% of all days), return for the whole period would have been 27% lower. Missing only the 20 best days and return would have been 45% lower. This is a low odds/high cost outcome.

Concern over the effect of a meaningful decline in portfolio value is understandable, particularly with investors for whom portfolio withdrawals are the primary funding for regular living expenses. Certainly, a permanent decline in portfolio value could require material withdrawal rate adjustments to ensure funding sustainability. Chart II provides a sample signal mechanism for determining when and by how much annual withdrawal rates **should** be reduced (index less than 100) or **could** be increased (index greater than 100). For this period, annual adjustments generally ranged ±5% around the target withdrawal rate. Such future adjustments may be manageable for many investors.

INVESTMENT IMPLICATIONS

The rare altitude of recurring new highs in a long bull stock market is cause for celebration and often a cue to some for portfolio adjustments. While well-intentioned, such adjustments may be neither necessary nor effective. Identifying clear goals, time horizons and risk tolerance are both necessary and effective for setting appropriate portfolio allocations. Changes in either personal circumstances or in market return/risk expectations can trigger allocation adjustments. In the absence of such adjustments, maintaining appropriate portfolio allocations is warranted whether market altitudes are rare or common.

CHART I

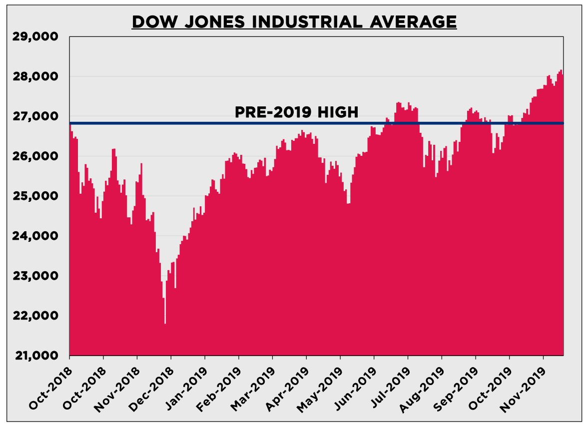

TABLE I

BULL MARKET SHORTFALL
March 2009 - November 2019

	Dow Jones Industrial Average
Full Period Annualized Return	+17.5%
Total # of Trading Days	2,709
Return Less 10 Best Days	+12.7%
Return Less 20 Best Days	+9.6%

CHART II