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ANY CREDENCE TO 'BAD MOON' WORRIES?

By Fred Dunbar

In April 1969, Creedence Clearwater Revival released what has become a classic song called "Bad Moon Rising," written by John Fogerty. Wow, if there was ever a song that embodies the investment mood today, it's that song.

As I write this, I have just returned from a conference that ended May 14. During the conference, I heard several presentations about how the economy is doing and what to possibly expect in the future.

Remember, the future is just that, and truly cannot be forecast accurately.

One presentation started by asking: What were we worried about just a couple of years ago? It was the weak dollar, high oil prices, China rising and a U.S. recession. What are we worried about now? Well, it is a strong dollar, low oil prices, China falling and a global recession.

Should you be worried?

Presenters discussed bear markets, which are defined as a decline of 20 percent or more from the previous market high. Since 1929, there have been 10 bear markets. As you can imagine, the deepest drop occurred during the Great Depression after the markets peaked in September 1929. One of the shortest bear markets occurred in 1987 (lasting only 3 months) after peaking in August 1987. If you are old enough, you might remember "Black Monday." It was on Oct. 19, 1987, when the stock markets around the world crashed. The market fell more than 22 percent that day. It felt like the end of the world. As crazy as that day was, the market finished up for the year. Lastly for you young 'uns, you might remember the Tech Bubble in 2000, or certainly the most recent bear market caused by the housing crisis that occurred in 2008. We now are calling it the Great Recession, which actually kicked off this great Bull Run we have been experiencing since March 2009.

There have been articles in various business papers this year stating that some investment companies and banks are telling their clients to get out of the market now. There seem to be many extremes in our society today. Nothing appears to be moderate anymore. Because of various geopolitical events around the world, some analysts believe it is better to get out of the market now.

It seems when markets are jittery, especially when we approach the month of May each year, that you'll hear the old adage, "Sell in May and go away." Basically, this is an investment strategy for stocks, sometimes called the Halloween indicator. The premise is that the markets do not do well during the summer. The theory is to sell all stocks at the beginning of May and buy them back right after Halloween on Nov. 1. It seems that one or two publications make reference to this each year. If the markets have been going up for several months, there is no way people would sell all of their stocks on April 30. Conversely, if the markets have been going down for several months and are crashing on Halloween, most people will not buy stocks on Nov. 1.

I'm sure with all that is going today, many of you are spooked.

We have been seeing it firsthand at my practice. Last week we had a client (who we'll call Bob) in for his semiannual review. Bob sat in my conference room in early May and said he was worried about where the market is going. In addition to everything else that has happened, Bob is very concerned about the upcoming election (who isn't?). Bob said he just had a bad feeling in his gut. He said he had the same feeling back in 2008 but did not act on it. He has been kicking himself for the past several years. Bob was not with my firm in 2008. His last adviser told him everything would be fine and never made any adjustments. When the market hit rock bottom at the end of February 2009, his former adviser said they needed to make changes. Bob told his former adviser, heck he could have done that. I explained to Bob that if he can't sleep at night, then we should reduce the risk. We discussed this at length and basically I reduced his risk from 60 percent equities to 20 percent equities. I explained that we will revisit his portfolio later this year.

This is not an isolated instance. I have had this conversation with a few additional clients along with individuals referred to my office. I explained to each that I don't see any type of bubble that will cause a recession at this point in time. Although 2008 was one of the worst times in their lives, it was caused by the housing and bank crisis. Today, banks are in good shape, certainly better than they were then, and real estate values have recovered over the past seven years. In my office, we take pride in creating SWAN (sleep well at night) portfolios. If a client is unable to sleep, then there is too much risk in their portfolio.

We sit down with most of our clients twice a year. This will allow us to readdress each client's risk down the road especially after the upcoming election. Hopefully by then the bad moon will have passed and we'll be on our way to brighter skies.

Remember to review all of your investments to make sure they are diversified. If we happen to catch a market correction, you will be in good shape to ride it out without taking undue risk.

Now that you have addressed your fears about this bad moon over the market, grab your chair, book and beverage and head to the beach … and perhaps a well-deserved nap.

Fred Dunbar, CLU, ChFC, RFC, AIF,® is President of Planning Directions, Inc., a registered investment adviser, and Common Cents Planning, Inc. He is also a registered representative of and offers securities through Commonwealth Financial Network, member FINRA/SIPC. Advisory services offered through Planning Directions, and fixed insurance products and services offered by Common Cents Planning, are separate and unrelated to Commonwealth. Fred may be contacted at 800-647-0762, by e-mail at fdunbar@commoncentsplanning.com or by mail at 239 Baltimore Pike, Glen Mills, PA, 19342.