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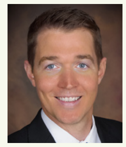

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The Record Bull: A Short Review

The month of August marked an important milestone for the long-running bull market.

On August 22, the bull market, as measured by the S&P 500 Index, extended its run to 3,453 calendar days (*CNBC*, various sources), becoming the lengthiest bull market in history, or at least since WWII. While we may celebrate this milestone, let's take a moment to review where we have come from. Before I continue, I believe a couple of definitions are in order.

First, a **bull market** is generally measured from the lowest point in a cycle to its peak. The peak can only be defined in hindsight, when the market has declined by at least 20% from its prior peak. That decline is widely considered to be a **bear market** –the second definition.

That said, the S&P 500 Index bottomed on March 9, 2009 at 676.53 (data provided by St. Louis Federal Reserve). There is no way to sugar-coat it. Late 2008 through 2009 was a bleak time for investors. Brought on by a financial crisis, the economy was sliding into a deep recession.

Companies were quick to jettison employees, and corporate profits fell sharply. But, as we have seen time and time again, stocks found a bottom, a new bull market emerged, and the economy turned around. Few could have predicted the current cycle would run as long as it has. Or, for that matter, run up as high as it has. While not the best performing, the current run has advanced 329%, as **Table 1** shows in the next column…

Table 1: Longest Running Bull Markets since WWII – S&P 500 Index Performance

	Trough-to-peak Return
Oct 1990-Mar 2000	417%
Mar 2009-present*	329%
Jun 1949-Aug 1956	262%
Aug 1982-Aug 1987	229%
Oct 1974-Oct 1980	126%
Oct 2002-Oct 2007	102%

Source: Yahoo Finance, St. Louis Federal Reserve, S&P Capital
**as of 8.31.18*

What makes a bull market? A look behind the curtain.

The themes that are driving shares today have been in place to varying degrees since the economy bottomed in 2009 – economic growth, profit growth and low interest rates. For much of the expansion, economic growth has not been stellar, but it has lifted corporate profits, which are at record levels today (*Thomson Reuters*). However, let's not completely discount the role of the Federal Reserve. In order to jumpstart the economy during the debilitating recession, the Fed pushed interest rates to rock-bottom levels and it has been slow to raise rates.

Why does this lend support to stocks? Low interest rates encourage investors to look to other assets for income and capital appreciation. Put another way, low rates offer less competition for stocks. Throw in low inflation and the continued stream of stock buybacks from corporations (S&P Dow Jones Indexes), and powerful forces have merged, lifting shares.

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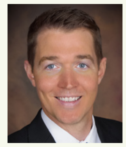

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Overcoming hurdles

There has been no shortage of headwinds that have temporarily interrupted the bull market or, at a minimum, created concerns over the last nine years. Financial turmoil in Europe, the U.K.'s Brexit vote, the collapse in oil prices, worries about China's economy, and the downgrade of U.S. debt in 2011, were just some of the headwinds that surfaced to create short-term volatility.

When headwinds have failed to throw the U.S. economy into a recession, the focus has shifted back to the positive economic fundamentals, and the bulls prevailed. Looking longer term, the bulls have always triumphed – eventually. Those who have bet on a long-term slide in stocks have been sorely disappointed.

If we open our history books, the Dow Jones Industrial Average was below 100 in 1915. Today, it is above 26,000. Even if adjusted for inflation, the Dow is up over tenfold (*Macrotrends*).

In the end, the bulls win. Why? Short downturns in the economy (recessions), are followed by economic expansions that run much longer than recessions. Over time, the economy's value rises. It has been that way for more than 200 years.

I recommend diversified stock portfolios; portfolios that include the major sectors of the economy. Investing in a diversified portfolio is much like buying a stake in the U.S. economy. The economy may or may not be larger next year, but history tells us it will be larger 10 or 20 years from today.

Continuing along that same road, the major market averages are likely to follow a similar trajectory over a long period. That does not mean we will not see a sharp sell-off from time to time. It does not mean that stocks will necessarily match the economy's performance over a short period. However, it does mean there is a long-term upward bias for stocks.

I hope you have found this review to be educational and helpful. As always, I am honored and humbled that you have given me the opportunity to serve as your financial advisor. To review your retirement income strategy, please contact **Jeff Mahoney**, CFP®, RICP® at jeffmahoney@hjsims.com or (952) 683-7503.