The Advisor

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The 10-Year Anniversary of the Bull Market

It was a meteoric ascent, with a few blips along the way. That may sound like a dramatic way to express the stock market's rally of the past 10 years, but there are any number of adjectives that could be substituted for "meteoric." The truth is that if someone had invested in an index fund tracking a broader representation of the equities market during that time period; March 9, 2009 to March 9, 2019, would have more than tripled their money.

The S & P 500 was up 313 percent during this time period.

Back in 2009, the market had bottomed out. This was post-financial crisis and it was a rough time for the market. The growth from that day forward has been a good period for the market and equity investors. To get more than a 300 percent gain on your money is not something that happens every day or during any decade. That is outstanding performance.

A hundred thousand dollars invested in March of 2009, could be worth over $300,000 today. The S & P 500 averaged nearly an 18 percent annual return during that time period. That is a substantial premium over its average annual return going back many decades.

This should also illustrate the futility of market timing. How many investors were ready to dive headlong into the market on March 9, 2009? Many were still licking their wounds. After all, the S & P 500 had hit a high in October of 2007 and then dropped more than 50 percent.

Recent Performance

This past December, and the rest of the fourth quarter of 2018, saw the S & P 500 drop by 13.5 percent. Some other blips in the rally occurred because of the Chinese economy and decisions made by the Federal Reserve. These events left some observers with the notion that the rally had ended and a bear market was upon us. That turned out to be a short-lived concern.

For much of the last 10 years, interest rates have been near zero, and investors seeking any level of return have chosen to go with equities. Although many continued to choose safe havens after the recession, many institutional investors sought higher returns in the stock market.

Today, there is slowing economic activity in Europe and in China. There is the geopolitical event known as Brexit causing some uncertainty about the trade and economic impact of the British exit from the European Union (EU).

Despite these things, domestic investor mood is good, corporate earnings remain strong and unemployment remains low. Will the long-running bull market see year 11?

That would require that no geo-political events arise and that the Fed remains sensitive to their impact on market movements. Since January, the S & P 500 Index has been on a mostly upward trajectory with some volatility thrown in for good measure. Investors can only hope.

Ian Salisbury, "The Stock Market Hit Rock Bottom 10 Years Ago. Here's How Much a $10,000 Investment Then Would Be Worth Today," (2019, March 8), Money.com, Investing, Stocks

Patti Domm, "The bull market is about to turn 10 years old and investors think it could go at least another year," (2019, February 27), CNBC.com, Market Insider

James F. Peltz, "This bull market has hit the 10-year mark. Will it keep raging or will bears spoil the party?," (2019, March 8), The Los Angeles Times, Business

Fed Backs Off on Rate Hikes

Picture a juggler with four or five balls in the air, attempting to watch each one and time their movements precisely to keep each in motion. That visual may be a good representation of what the Federal Reserve does as it closely monitors the economy and makes decisions about interest rates.

The balls represent all of the economic indicators, geopolitical events and other information that the Fed must monitor constantly. Just as the juggler must adhere to the rules of juggling, the Fed must stick to a plan based on historical data and the opinions of its board members and what is mandated in the Federal Reserve Act.

Managing inflation and regulating banks to protect consumers are just two of the Federal Reserve's functions. The Fed is responsible for setting monetary policy and describes this function like this:

"The Federal Reserve controls the three tools of monetary policy — open market operations, the discount rate, and reserve requirements."

The central bank lets the public know its intentions through direct comment and through hints of what it is thinking. In recent months, the Fed's thinking and its targets have changed. The Federal Open Market Committee (FOMC) is the committee of the central bank that determines interest rates.

The FOMC's longer-term goals are price stability and sustainable economic growth.

Rate Hikes Less Likely

As interest rates go for 2019, the FOMC has sounded like Cape Canaveral counting down for a rocket launch since last year; 3, 2, 0. Their hawkish plans have morphed into dovish plans for the year. So, what gives?
As recently as December, the Fed had anticipated two rate hikes during 2019. In January, Fed Chairman Jerome Powell made several comments that indicated that the Fed would be flexible in the new year, but they had perceived a slowing economy in the first quarter. That prompted them to cut their forecast for growth for the year.

The Fed needs to stave off any inflation with rate hikes. A great economy can become an overheated economy. The central bank's target is an inflation rate of two-percent.

The threat of inflation was higher last December than the central bank perceives it to be today. In his most recent comments, Chairman Powell, said; "The U.S. economy is in a good place, and we will use our monetary policy tools to keep it there."

The Fed's decisions have consequences. There is the hoped-for impact on the economy, which is the goal and then there is the inevitable impact on the markets, which is unintentional.

With no projected interest rate hikes for 2019, and only one planed for 2020, the Fed is hoping that the mood of investors will remain positive. Some observers are even betting on a rate cut before the end of the year. This is good news for investors, who are leery of anything that will disrupt the markets.

If the Fed feels like they can sit on the sidelines for a while, then that means the economy is humming along to their liking.

https://www.federalreserve.gov/monetarypolicy/fomc.htm, "About the FOMC," (2019, March 20 – last update)

Greg Robb, "Fed jettisons 2019 rate-hike plans as economy slows and inflation softens," (2019, March 20), MarketWatch, Economy and Politics, Federal Reserve, The Fed

About the Author

K Richard Douglas has worked in the financial services industry for 26 years, with an additional 10 writing about financial and economic topics. He's a former series 9, 10, and 26 registered principal and series 6, 7, and 63 registered representative. Richard has held many financial service industry designations, especially in the retirement planning and compliance mechanism areas.