

Special Report: Dow 20,000. What's Next?

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Dow 20,000.

A milestone. A new and exciting number. A sign of what's to come?

There's no question the stock market has been trending higher since the election of Donald Trump.

First it was a new record at the 19,000 mark. The Dow hitting 20,000 is its 18th new record since the election.

But does it really mean anything for investors?

"It makes people feel good, but I think it's more psychological than anything," said Jerry Lynch, a certified financial planner with JFL Total Wealth Management in Boonton.

Indeed, the Dow is only 30 stocks out of thousands in the financial markets and not really that meaningful in terms of tracking the stock market as a whole.

"The Dow hitting 20,000 is important as a symbol of markets moving up, but for long-term investors it's a reason to smile for a moment but nothing more," said Diahann Lassus, a certified financial planner and certified public accountant with Lassus Wherley in New Providence. "And the reality is that we could see Dow 20,000 many more times over the next few years as we go through corrections and then work our way back up over time."

Very true, but we're not seeing that yet. While you were sleeping, world markets followed the Dow's lead higher, and U.S. markets are poised to open higher yet again today.

So the 20,000 number gave the financial press something to hoot and holler about. But why?

"The media loves things like the Dow exceeding 20K because it makes for great headlines," said Stephen Craffen of Stonegate Wealth Management in Oakland.

Indeed, stock market news isn't always sexy. But it's important.

That's why NJMoneyHelp.com is taking you beyond the headlines for a deeper look behind the number.

WHAT'S TRUMP GOT TO DO WITH IT?

We've had a bull market for some time now — long before Trump declared his candidacy.

The 20,000 mark is a reflection of the continuing Trump rally, said John DeAngelo, a certified financial planner with Prestige Wealth Management Group in Flemington and Millburn.

So Trump doesn't get credit for the bull market, but he may get credit for helping to extend it, Lassus said.

She said the president's focus on reducing regulations for business and cutting taxes has energized much of the business community, at least for the short term.

The reality is that before the election, the economy was continuing to grow, even if it was slowly, and earnings were pretty strong leading up to the election, Lassus said. That's what's driven the increases in the overall U.S. stock markets, she said.

Craffen said the promise of lower corporate and individual taxes and a reduction of regulations and red tape is all good for the economy, and we're starting to see the evidence even though we don't yet have the legislation to make it happen.

"Consumer confidence surveys and certain surveys that indicate future hiring plans by small businesses all ticked up in December," Craffen said. "In fact, both experienced increases not seen in decades."

Those so-called "leading indicators" are what economists use to try to help predict the future direction of economic growth.

It might be easy to try to dismiss this, Craffen said, but he said most economists will tell you that reducing taxes and red tape stimulates economic growth more than government spending — another possibility with infrastructure spending. He said the market is reacting to this and it is signaling a belief that growth in the U.S. economy will accelerate.

But volatility is sure to remain for some time, especially if Trump's free-wheeling policy comments and Twitter pronouncements continue.

"His actions could drive the market up or down and may lead to unexpected results over the short term," Lassus said.

WHAT SHOULD I DO NOW?

The outlook is positive for the stock market for 2017, but that volatility will probably remain.

Think slow and steady. Be consistent.

"Develop your plan. Stick to your plan. Make small changes over time," Lynch said. "The tortoise always wins."

Lynch said he runs for cover when everyone gets excited.

"Market highs scare the heck out of me," he said. "I would much rather invest when everyone was afraid."

As such, he said, he's not making any fundamental changes right now, and he continues to rebalance on a systematic basis.

But Sheri Iannetta Cupo, a certified financial planner with SageBroadview Financial Planning in Morristown., said there's little evidence that new monthly highs signal near-term declines.

"Consider the S&P 500 Index for the better part of the last century," she said. "From 1926 to 2016, the proportion of annual returns that were positive after a new monthly high was similar to the proportion of annual returns that were positive after any index level."

To her, it means a market high isn't a dependable sell signal.

Trying to time the market isn't the answer for most investors, especially as the short-term volatility is expected to continue.

"People who were really concerned about what might happen when Trump was elected and pulled out of the market have missed a solid rally," Lassus said. "History shows that investors who try to move in and out of the market during times like these typically don't do well."

While long-term strategies are what most advisors recommend, we can't ignore that there are opportunities out there as certain sectors are expected to benefit from policy changes.

There are bets to be made.

If you want to jump into the Trump rally, consider sectors that are projected to benefit the most from a pro-growth agenda, including financials, energy and small-cap stocks, said George Kiraly, a certified financial planner with LodeStar Advisory Group in Short Hills.

On the flip side, he said, defensive sectors, including utilities, healthcare and bonds — particularly intermediate and long-term bonds — will probably struggle this year.

And when it comes to international exposure, choose carefully.

"A broad international fund will likely underperform this year," Kiraly said.

He said he purchased a pair of Russian Market exchange-traded funds right after the election because he believes a more pro-Russia Trump administration will likely ease tensions between the two countries. And, he said, the recovery in crude oil prices also benefits the Russian economy.

"The Market Vector Russia ETF (RSX) and the Market Vector Russia Small-Cap ETF (RSXJ) are up 17 percent and 20 percent respectively since Nov. 9," he said.

Kiraly said he also recently purchased the iShares S&P Latin America 40 ETF (ILF), which is up 15 percent in the last four weeks. The outlook for the countries in that index have been helped by more stable commodity prices, he said.

Lassus said for long-term investors, it is much more important to have a diversified portfolio and not focus on the short-term results of any one asset class.

"Stick to your investment plan and continue to invest your dollars every month," she said. "If you have a large sum to invest it may make sense to spread the investment over several months or even longer."

And be sure to review your plan, including your cash needs, and make sure you have enough reserves set aside for emergencies.

Email your questions to Ask@NJMoneyHelp.com.

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