Market Review and Outlook—September 9, 2016

It is Good but Doesn't Feel Like It The table below shows some pretty solid trailing results, with only three trailing losses (all for fairly small sectors), and yet most investors have felt as though their portfolios are struggling. Why wouldn't they? We had sharp declines in January/February due to China's slowdown and energy concerns, and again in June with the BrExit vote. Nonetheless, the bottom line of the table shows that a moderate risk, balanced investor has earned solid returns over the past decade. Call it a *Stealth Bull Market*.

What Deserves the Credit? It's the economy. We have regularly noted that stock markets move due to two factors: emotions and economics. Emotions are stronger in the short-term and economics are stronger over the long-term. Eight years ago this month stock markets crumbled, led by investor panic. The global economy suffered sharply for six months. The global economy recovered fairly quickly, but investor emotions have yet to recover, eight years later! The AAII Investor Sentiment finds that currently fewer than 30% of investors feel bullish, which is almost 10% lower than average. Yet the markets are setting new records, and this is a testament to the superiority of economics over emotions over the longer-term.

So do we have smooth sailing ahead? Of course not! If you want smooth sailing, buy a bank CD, and earn 1¼% over the next year (while core inflation is running over 1½%). We have a lot of uncertainty to deal with, a national election in the US, the coming exit of the UK from the European Union, efforts by the Chinese government to re-ignite their country's growth, all with a backdrop of security concerns from ISIS, North Korea, and others. It is exactly that uncertainty which has enabled investors with a dedicated level of stocks to outperform bond investors over the long-term, as it harnesses the power of economic growth over the power of investor fears.

Discipline, including disciplined portfolio rebalancing, enables investors to profit from investors' short-term emotions. We are cutting back on stocks at this time, partially due to their strength in the past six months. Successful investors harness both economics and emotions to boost their returns in good times and bad.

Category	3 Months	12 Months	3-Yr Avg	5-Yr Avg	10-Yr Avg
Fidelity Govt Cash Reserves	+0.02%	+0.05%	+0.02%	+0.02%	+1.03%
Intermediate Term Bond	+2.54%	+5.47%	+4.04%	+3.43%	+4.60%
Intermediate Muni Bond	+1.51%	+5.81%	+5.29%	+4.03%	+3.98%
Large-Cap Stock	+3.59%	+8.76%	+10.00%	+12.89%	+6.61%
Mid-Cap Stock	+4.02%	+5.78%	+8.29%	+11.94%	+6.95%
Small-Cap Stock	+5.84%	+7.48%	+7.39%	+11.70%	+6.69%
Foreign Large-Cap Stock	+2.11%	+0.79%	+2.35%	+4.34%	+1.62%
Foreign Small/Mid Cap Stock	+0.71%	+3.77%	+4.63%	+6.73%	+4.21%
Diversified Emerging Markets	+9.77%	+10.44%	+1.25%	-0.13%	+3.42%
Technology	+7.58%	+15.01%	+14.29%	+13.91%	+9.31%
Real Estate	+6.77%	+21.50%	+14.72%	+12.41%	+5.85%
Natural Resources	+4.84%	+5.61%	-4.28%	-2.62%	+0.27%
Moderate Allocation (60% stocks)	+3.37%	+6.52%	+6.33%	+7.89%	+5.30%

The data in this table comes from Morningstar and is as of August 31, 2016

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