Blue Bell

PRIVATE WEALTH MANAGEMENT

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Beware of the “Easy” Times In The Stock Market

A Bear Market is defined as “A condition in which prices fall 20% or more from recent highs”.

The talking heads loudly proclaimed we were in a bear market on December 24th, 2018. We were nearing the final days of one of the worst quarters in the last 10 years and the doom and gloom prognosticators were all over the TV telling everyone to get out before it gets worse. Certainly, it was a rather difficult time to be optimistic in the face of all the negative talk. Note, I said negative talk not negative economic data.

What Happened?

We just finished the single best quarter in ten years with investor optimism again reaching lofty levels. One might ask why? Especially considering many of the talking heads have shifted their chatter to a coming economic recession. I have no doubt we will in fact face another recession at some point especially with the world economy slowing. Long-term investors understand the stock market and that the economy is never a one-way street upward. Short-term investors are not really investors, but in a sense are gamblers.

When panic selling occurs, as on December 24th, there is usually an explanation. Basically, panic selling can be described as get out at any price. Panic selling is an emotional reaction to fear of losing rather than evaluating the fundamentals. I can’t think of a better time to “buy” select closed-end funds (CEF) than during these periods. In declining markets, CEF discounts tend to widen as investors sell first and ask questions later, which may cause CEF’s to underperform. This dynamic of widening discounts means that the CEF underperforms not because the NAV performed worse but because the share price fell faster than the NAV. It may be counterintuitive to many but purchasing underperforming CEFs as a result of the widening is typically an attractive buying opportunity.

What has changed?

Really, it is the fear of the unknown. When the Federal Reserve tightened interest rates In Dec 2018 it helped cause the sell off. The Fed has been very clear that the rate hikes are over, at least for the foreseeable future. China is still a wild card, but as talks progress investors are clearly becoming less and less fearful of an all-out trade war. The Mueller investigation created political uncertainty with impeachment talks. Jobs and earnings growth continue to be above expectations with rather strong numbers and the trade deficit improved with exports rising .9% and imports falling 2.9%.

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I would like to share some important lessons I have learned during my career.

- Understand Volatility and how it affects your investments
- Have Patience
- Tune out the talking heads
- Taxes are an important part of investing
- Some major index moves are rational, and some are irrational
- Greed for lack of a better word is "not good"
- Understand the downside to all your investments. Can you handle it?
- Do not listen to hot tips, they never work in your favor
- If something sounds too good to be true it probably is

Understanding these lessons can help block out the noise and stick to your investment plan no matter where the market is heading.

The Do's and Don'ts of Investing

What makes a successful investor? The advisors at our firm decided to sit down and write out five things that investors should or should not do to be successful. After comparing our lists, we created the five do's and five don'ts of investing.

The Do's	The Don'ts
Do Get Educated	**Don't** Try and time the market
Do Continually save and invest	**Don't** Worry about the short-term
Do Maintain the long-term approach	**Don't** Put everything in one basket
Do Understand returns	**Don't** Combine insurance with investing
Do Pay attention to fees	**Don't** Invest on margin

The Don'ts

1. **Don't** Try to time the market

Market timing is the act of moving in and out of the market based on using predictive methods such as technical indicators, economic data, or just how you feel that day. The problem is that no one can successfully time the market over the long run. At Blue Bell PWM we believe it's not about timing the markets but time IN the markets, which you can read more about here.

2. **Don't** Worry about the short-term

You should be investing with the long term in mind. Focusing on daily market movements will matter little 10-20 years from now. Investors who get caught up in the short term often make poor decisions that lead to underperformance.

The Do’s and Don’ts continued..

3. **Don’t** Put everything in one basket

Diversification is a technique that reduces risk by allocating investment among various sectors, industries, and asset classes. Diversification is one of the most important components of reaching long-term financial goals while helping minimize risk.

4. **Don’t** combine insurance with investing

Insurance should be used to reduce risk outside of the stock market not in it. Buying certain insurance vehicles like variable life insurance and annuities are normally not in the investors best interest.

5. **Don’t** Invest on Margin

Buying on margin involves borrowing money from a brokerage firm to purchase stock. While this gives potential for much higher profits it also comes with substantially more risk.

The Do’s

1. **Do** Get educated

Education is one of the best investments that you make especially when it come to your financial situation. Learning about saving and investing for retirement is easier today than ever before thanks to the internet.

2. **Do** Continually save and invest

The idea of saving and investing a fixed amount regardless of what the market is doing is known as dollar cost averaging (DCA). DCA cuts down the volatility over the long-term by spacing out the investment and diving the amount of money invested equally. This allows the investor to buy more when the market is low and less when it is higher.

3. **Do** Maintain the long-term approach

Investments held for longer periods tend to exhibit lower volatility than those held for shorter periods. The longer you invest, the more likely you will be able to weather low market periods. Although short-term fluctuations seem random, the stock market tends to reflect the overall growth and productivity of the economy in the long run.

4. **Do** Understand returns

Understanding returns can make your portfolio evaluation easier. How your investment returns compare to the overall market can be a good indication if your strategy is working. You should also understand the difference between capital appreciation and dividend returns when picking investments as many investors tend to overvalue the dividend return.

5. **Do** Pay attention to fees

There is no avoiding fees in the investment world but that does not mean you should ignore them. With some basic research you can figure out how much you are paying for investment services and how they compare to similar ones. The fees may seem small but over the long-term they can diminish your returns.

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Let Us Help You Maximize Your Social Security

With the disappearance of pensions and longer life expectancy, Social Security benefits have become an increasingly important part of retirement planning. If you have access to your Social Security statements we can help you optimize your benefits. After filling out a quick questionnaire we will send you a customized Social Security claiming strategy. To receive this questionnaire, or for any questions please give us a call at 610-825-3540 and ask for Alex.

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Reminders

- If you mail a check, please make the check payable to “Charles Schwab & Co, Inc.” with your account number written on the check.
- Talk to your children about the benefits of starting a Roth IRA.
- SAVE NOW! Please consider setting up online access to view your accounts online and to receive your statements and trade confirmations electronically.
- Mention to your friends and family about signing up for our weekly blog posts and personal weekly reads about retirement, investing and more on our website!

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this newsletter , will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from Blue Bell Private Wealth Management LLC Please remember to contact Blue Bell Private Wealth Management LLC if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services. Please also advise us if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. A copy of our current written disclosure statement discussing our advisory services and fees remains available for your review upon request.