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Advisors suggest long view in assessing stock market surge

BY CATHERINE LACKNER

The recent stock-market surge has nearly everyone guessing how long it will last, but advisers say it's more important to take the long view.

"Recent stock market history has shown valuations are highly subjective and overvalued markets can get even more overvalued before a bull market ends," said Julie Neitzel, a partner in WE Family Offices in Miami and vice chair of the Miami Finance Forum.

"Three years ago, there were many similar commentaries regarding an overvalued stock market and we've experienced nearly a 30% increase in valuations. The ongoing global environment with relatively low inflation and low interest rates enables equity markets to carry higher valuations," she said via email.

"Although over the past 12 months, the Fed has enacted increases, interest rates remain at historical lows and are projected to continue in low single-digit ranges for the foreseeable future. Currently 40% of the S&P 500 companies have dividend yields above the 10-year treasury and continue to increase dividend payouts. This certainly makes the case to hold equity versus bond investments," she continued.

"Further, the impact of corporate tax reform and reduced government regulation are pending initiatives which may set the table for future US equity valuation increases. Pullbacks will occur in the stock market and they are difficult to predict. Therefore, having the proper asset allocation (i.e., mix of cash, bonds, stocks, etc.) from the start is an important component of achieving investment goals and avoiding capitulation in a bear-market environment, enabling one to stay an investment course."

Ms. Neitzel has some advice for consumers who want to "benefit by not getting distracted with the current stock market noise":

■Contribute in a disciplined and ongoing manner to your retirement account as your investments will participate in bull and bear markets over the investment cycles of building a retirement fund.

■Trying to market-time is highly difficult and countless studies have demonstrated that missing the best market days considerably reduces investment returns.

■Take advantage of the company 401K match, which essentially is 'free money' that gets invested along with your contributions.

■Get asset allocation advice for your retirement account which will drive investment returns while incorporating specifics on one's financial needs and goals.

■Become familiar with fees, as they will greatly impact the net investment returns in your accounts. The current and foreseeable future environment forecasts modest single-digit investment returns, which can be significantly diminished by high investment costs and fees.

■Understand the difference between volatility versus permanent investment losses. The value of quality investments (i.e., stocks, bonds, etc.) will fluctuate upwards and downwards over the course of a market cycle; however, speculative investments may result in permanent losses.

■Understand the risk-return trade-off in the investment decision-making process.

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"Anyone who has a 401K retirement account has been very happy to see the results of the past six months," said Alan Fiske, managing director of Fiske & Co., an accounting and consulting firm. "The stock market has been very good to people. Unfortunately, bonds have not done as well. Most investment advertisers say you should have some bonds, but portfolios heavily weighted toward stocks have done very well this year. How long the run-up will last is anyone's guess."

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Alan Fiske

Some people got out of the stock market during the Great Recession, and many have not returned, preferring low-risk investments like money-market funds, he said.

"You have to invest for the long term; people who try to time the market are rarely successful. Everything has cycles, so a bear market will eventually turn into to a bull market."

Consistency and patience are key, he stressed. "Diversify; invest in America. America's doing great," Mr. Fiske said. International stocks – especially when held in mutual funds – are a good bet, too, he said. "Pick quality investments, stay in the market, and ride it out. You'll be much better off in the long run."