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By Greg Gann

With the Market at Historical Highs, Now What?

With the Dow up almost 15% measured from days before the November 8th election to the middle of February, which is equivalent to an annualized return of almost 60%, the question becomes is this the time to reassess the way your retirement savings are allocated. Here are ten facts which don't always make their way to main street, but have significant impact on that question.

- Federal tax receipts have gone negative for the first time since the last recession.
- Job growth at S&P 500 companies has turned negative for the first time since the last recession.
- The U.S. trade deficit in 2016 was the largest in four years.
- The latest labor report indicated the largest decline in average weekly hours since the recession of 2008.
- The economy, eight plus years past the Great Recession, has grown at an anemic rate of only 1.5%-2%. In fact, President Obama's term as president will go down as the only presidential term in modern American history never to have had a year where the economy grew at least 3%, and he had two terms to achieve this.
- The price to sales ratio today for the S&P 500 is amongst the highest ever recorded. The price to earnings ratio averaged over a ten year period is almost at its 1929 level, exceeds the level reached prior to the Great Recession, and has only been higher at the peak of the dot com period in 2000.
- The Federal Reserve has propped up asset prices over the last nine years through printing money to purchase mortgages and bonds held on the balance sheets of banks in order to create a market for these securities, thereby reducing interest rates far below where the free market would likely have set them. They are now reversing course by both raising interest rates, and just as importantly, reducing the size of their balance sheet, which will also cause interest rates to rise.
- The U.S. dollar has risen considerably over the last year. This makes U.S. exports that much more expensive and increases the trade deficit.
- The market is pricing in all the positive elements of President Trump's campaign economic policies, including mainly massive tax reduction, infrastructure spending, and deregulation.

For whatever reason, it is ignoring the negative consequences of what he simultaneously has promoted, namely tariffs, protectionism, isolationism, and scrapping trade agreements.

- The market for some reason is also ignoring the geopolitical risks associated with a Trump administration. Instead of focusing on tax policy, infrastructure projects, and areas where regulations could be modified to promote more economic growth, so much of the President's first month in office has been riddled with crowd size, assault on the media, botched travel policies, tensions with important allies and trade partners including Mexico, Australia, China, and the U.K., and a resignation of a high cabinet appointment with ties to Russia that provides impetus to investigate the President's potential knowledge or involvement. The amalgamation of these events impact the President's focus and undermine the likelihood that all of his economic agenda will be supported by Congress. The euphoria in the market is also ignoring provocations from Iran, North Korea, and Russia as well as the costs of military engagements especially in a period of lower tax revenues.

We are living in an unconventional world mired with extreme uncertainty, all of which are currently being dismissed by the market. In such an unconventional world, one should not approach his or her investments or investment management with conventional tools. The euphoria in the stock market today is reminiscent to me of similar emotions and confidence in real estate before the implosion. Notwithstanding the lowest interest rates in recorded history and the rally in asset prices, most people's homes today are still pretty far below their valuations reached a decade ago. History may not necessarily repeat, but it rhymes. I am always happy to help with outside the box thinking and strategies most appropriate for current market conditions and risks.

Wishing you all the best.
Greg Gann