Dow 20,000! Now What?

Twenty years ago, when the Dow Jones Industrial Average had soared to 6,800, experts talked about irrational exuberance. The thought of the Dow hitting 20,000 in the years ahead was almost as much as of a fantasy as some day taking a vacation on Mars.

Now, we're here.

The Dow on Wednesday closed above the 20,000 mark for the first time, ending the trading day at 20,068.51.

But as people are fawning over this major accomplishment for the 120-year-old Dow, investors shouldn't overreact and make moves they'll regret later. For the long-term investor, Dow 20,000 does not mean anything. It is just another milestone on the index's long-term march higher. As has been said about other watershed moments in recent years, the difference between 19,900 and 20,000 is more psychological than anything tangible.

Of course, 20,000 is a little more special and is grabbing the attention of everyday investors who may not have realized how much the stock market has soared in recent years while economic growth has felt more tempered. The Dow, for example, crossed 15,000 for the first time less than four years ago and has increased its value by a third more since then.

More noteworthy, the Dow's value has tripled -- yes, tripled -- since March 2009, its low-point after the financial crisis.

With this type of information seeing front-page status, investors who were burned after the financial collapse of 2008-2010 may finally make a move. The person that has been sitting on the sidelines will be more likely to get back in now. For them it is more psychological. Unfortunately, they should never have gotten out in the first place. Now they are afraid they are going to be left behind. It is funny how some will only want to invest when the market moves higher and buy at a premium versus buying when the market is on sale.

Many investors may also be wondering whether the market will continue going up or whether it's "overheated" and will fall.

There is evidence to support both views. On a positive note, the economy looks to be accelerating, business and consumer confidence is improving, and tax rate reductions are possible. On the other hand, valuations are frothy, especially in certain asset classes and sectors.

There are a few pieces of advice you may want to heed in this era of the Dow 20,000:

STAY CALM/ DON'T OVERREACT

At times of new market high's, it's not uncommon for investors to experience one of two emotions --- fear or greed. As difficult as it can be, investors are well served to stay calm and measured in any reaction to market dynamics. We can learn a lot from surgeons who excel at staying calm and controlled under stressful conditions.

Part of being calm means not selling off in one week, or not pouring a bunch of money in all in one week. Remember dollar-cost-averaging: Get in or out at regular intervals, without regard to emotion or what the market is doing. This protects you if you make a big move on the "wrong" day.

WORRY ONLY ABOUT WHAT YOU CAN CHANGE

Long-term investors should never worry about what the stock market is doing on any particular day. You should focus on being invested with an asset allocation that fits your goals, based in part on your age and risk tolerance.

Markets always rise and fall. With the market being at a new high, some may fear it will go down from here and sell in a bit of a panic, or they may not invest new money, or they may pour money in if they think they've missed the party. All of those overreactions can be costly.

People should not worry about the market since it is not within anyone's control. Instead, they should focus on what they control: setting goals, how much they earn, save and spend. That is ultimately what will determine a person's financial success. If a person isn't saving enough to begin with, it doesn't matter how much they earn on their investments.

DON'T CHASE SECTORS

The United States may see a number of new trade and tax law policies in the months and years ahead under the new (Trump) administration. Some sectors will benefit from new policies and others won't, but you're still better off with a balanced approach.

Sectors will go in and out of favor. So unless someone is actively paying attention to their portfolio, it is difficult for an individual investor to market-time sector moves. This is far better left to professionals who have a process and philosophy that is in keeping with your long-term goals.

HAVE A SOLID PLAN THAT YOU STICK TO

Individuals and families can best navigate market ups and downs with reality-based planning. This type of financial planning is a continuous process that never ends.

Part of the ongoing work is re-balancing your portfolio. The key is sticking to a re-balancing schedule no matter what sectors are hot or not. This allows you to cash in your gains while taking advantage of potential upside of weaker sectors.

As always, if you have any additional questions please do not hesitate to get in contact.

Sincerely,

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