

Have a Plan, Not Just a Stock Portfolio

Diversification still matters. One day, this bull market will end.

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In the first quarter of 2017, the bull market seemed unstoppable. The Dow Jones Industrial Average soared past 20,000 and closed at all-time highs on 12 consecutive trading days. The Nasdaq Composite gained almost 10% in three months.¹

An eight-year-old bull market is rare. This current bull is the second longest since the end of World War II; only the 1990-2000 bull run surpasses it. Since 1945, the average bull market has lasted 57 months.²

Everyone knows this bull market will someday end – but who wants to acknowledge that fact when equities have performed so well?

Overly exuberant investors might want to pay attention to the words of Sam Stovall, a longtime, bullish investment strategist and market analyst. Stovall, who used to work for Standard & Poor's and now works for CFRA, has seen bull and bear markets come and go. As he recently noted to *Fortune*, epic bull markets usually end “with a bang and not a whimper. Like an incandescent light bulb, they tend to glow brightest just before they go out.”²

History is riddled with examples. Think of the dot-com bust of 2000, the credit crisis of 2008, and the skyrocketing inflation of 1974. These developments wiped out bull markets; this bull market could potentially end as dramatically as those three did.³

A 20% correction would take the Dow down into the 16,000s. Emotionally, that would feel like a much more significant market drop – after all, the last time the blue chips fell 4,000 points was during the 2007-09 bear market.⁴

Investors must prepare for the worst, even as they celebrate the best. A stock portfolio is not a retirement plan. A diversified investment mix of equity and fixed-income vehicles, augmented by a strong cash position, is wise in any market climate. Those entering retirement should have realistic assessments of the annual income they can withdraw from their savings and the potential returns from their invested assets.

Now is not the time to be greedy. With the markets near historic peaks, diversification still matters, and it can potentially provide a degree of financial insulation when stocks fall. Many investors are tempted to chase the return right now, but their real mission should be chasing their retirement objectives in line with the strategy defined in their retirement plans. In a sense, this record-setting bull market amounts to a distraction – a distraction worth celebrating, but a distraction, nonetheless.

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Citations.

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