My Thoughts – Sideways
By Andrew Schultz

Many years ago, someone explained to me that one should picture the stock market as a person playing with a yo-yo (remember that toy that constantly went up and down) walking up the side of a mountain. In theory, up-and-down constantly in the short term but up over the long term. What this example failed to mention is that there may be extended periods when that person walks sideways through valleys and plateaus. In other words, there may be prolonged periods of short-term ups-and-downs, where in the medium term, the market may just go sideways. MOST PEOPLE HAVE FORGOTTEN there have been prolonged periods where the stock indexes have been volatile in the short term and sideways for years. Look at the chart of the stock market from 2000-2013. Bottom line is markets have never gone straight up over the long term and, furthermore, there have been prolonged periods of sideways’.

As I always state, I have no idea what the markets will do in the short or medium term. My job is to figure out how to protect capital in the tough times and hopefully figure out how to hopefully make returns on diversified portfolios of assets, regardless of what the stock market is doing in the short term.

What if we have another prolonged sideways period? My mindset is, we always must be prepared for this. My argument is, we are at the Schultz group but most retail investors are not.

Let me explain. In my opinion, a proper portfolio that includes stocks should be invested into many other different types of investments as well that do not require a stock market’s going-up in the near or medium term in order to etch out returns. Historically, this was achieved in a large part by bonds and other fixed income investments like CD’s for example. This still can be done this way today; however, for most investors, bonds and CD’s alone, as the counter balance, do not provide enough return.

The good news is there are now a lot of other types of investments that fit the characteristics of not needing a stock market to go up to make returns. Many of these investments have long-term track records with definable repeatable processes. But make no mistake, these investments, as well, can have extended periods of sideways with short-term up-and-down as well. The key is to use many different investments with low correlation to the stock markets, bond markets and each other so hopefully, when these investments have periods of sideways or downs, it does not happen at the same time it is happening to stock and bond markets.

One of the biggest issues during periods of bull markets in stocks is that any other type of investment that does not perform as well as the stock market during these times get bashed by the media and in turn, retail investors as “underperforming” and/or too “expensive” relative to stocks. What is never paid attention to is the incremental risk these investments take to achieve returns and the low correlation to markets that they may have. As a result, today many investors have shunned most other types of investments including bonds and are overweight in stocks relative to their risk tolerance. That may be because the person with the yo-yo has been walking almost straight up the side of a mountain for some years now and has not played with the yo-yo that much. What happens if that person starts constantly playing with the yo-yo again and walks onto a long plateau?

Please feel free to forward this article to anyone who might benefit from reading it.

Thank you,
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About the author: Andrew Schultz has been a Financial Advisor at Morgan Stanley and its predecessor firms for over 25 years. He is a Private Wealth Advisor, a group within Morgan Stanley Wealth Management who focus on Ultra High Net
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