Unemployment is low, interest rates are low, volatility is low, the economy is growing slow and steady, and the stock market has continued to move higher. “Goldilocks”, an investor’s dream. Or is it?

My view is that when you have a prolonged period of calm with a rising stock market, retail investors tend to over-invest in stocks relative to their risk tolerance. A false sense of confidence begins to prevail where many believe that the downside is very limited and that markets will keep moving higher and higher with no possible end in sight.

There is a fundamental tenet in stock investing that says one should buy low and sell high. Today, as in past similar types of periods, many would argue at a minimum, stocks are not cheap and there are still many more that would argue stocks are overvalued. Yet, as has happened in the past, we hear many pundits telling us why it’s different this time and the reasons why we should now be willing to pay much more for stocks then we ever have. In the past this has never been a good idea; however, as has happened in the past, a recognized over-valued market can still move up a lot higher for a lot longer before it corrects.

I HAVE NO IDEA WHAT THE MARKET WILL DO. What I do know is that most stock prices today are much higher relative to their earnings than they were 8 years ago. In other words, I feel most stocks are expensive. And again as stated earlier, just because stocks are expensive does not mean they cannot get even more expensive and does not mean they will drop and get cheap anytime soon. This rally can certainly continue for a long time or end tomorrow.

My advice therefore: One should have money in the stock market now. Caveat (my opinion): One should only have the portion of their money unhedged in the stock market for which they can handle up to 50% volatility. For most folk, I believe that should not be more than 20% of their portfolio. The balance of one’s investable assets might be placed in bonds, equity investments that are hedged, and/or investments with low correlations to the stock market. Why? The straight stock investments and the hedged stock investments should continue to do well if the market continues to rise. The bonds, low correlation investments, and the hedged equities should fare better than stocks if a stock market declines. There is of course no guarantee of this and that is why one should diversify across many asset classes and many different types of investments.

Too many people I fear have been selling off their bonds, low correlation investments, and hedged investments and instead over allocating that capital into stock investments relative to their risk tolerance. Worse yet, a lot of capital is being concentrated into a few technology stocks and overloaded into certain indexes. Historically, when an investment is overcrowded it can tend to overreact to the downside when investors start to liquidate.

Be warned.

Ride the wave as long as the surf is good, but be ready to swim in rough water if you get knocked off the surf board.

Please feel free to forward this article to anyone who might benefit from reading it.
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 Worth individuals, families and foundations. Andrew has recently been recognized by Barron’s as one of the Top 1200, by Forbes as one of the Top 200, and by the Financial Times as one of the top 400 Financial Advisors in the country.

If you would like to receive Andrew’s weekly commentary please email him Andrew.schultz@morganstanleypwm.com or visit https://fa.morganstanley.com/theschultzgroup.

If you are interested in scheduling a consultation with Andrew please contact Jen Todd at jennifer.todd1@morganstanleypwm.com or 305 695-6153.

If you would like to unsubscribe please email schultzserviceteam@morganstanley.com.