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MARKET MATTERS: Stock market worries mask good opportunities


Joseph Matthews

As investors, we can all be a little anxious — and there are certainly many factors driving the markets to consider.

Will British citizens vote on June 23 to leave the European Union? What's the Federal Reserve going to do with interest rates in the months ahead? How will the outcome of the U.S. presidential election affect world markets? Will economies around the world recover from the volatility and downturns they've been experiencing? What's the next event that might cause a market drop like the ones we experienced in the first quarter of this year or perhaps like the 1,000-point drop last August?

As investors, we are prone to be most familiar with the things that have happened in the not-so-distant past — a phenomena known as "recency bias."

We've seen this bias show through various economic indicators in recent weeks, including the most recent consumer confidence numbers, which showed a decline at the beginning of June. A recent investor sentiment poll conducted by the American Association of Individual Investors (AAII) shows a below-average level of optimism by investors for the 31st consecutive week and 64 of the last 66 weeks. History shows, however, that investors' sentiments toward the markets often are contrary to how the market ultimately performs.

Many investors may have chosen to veer from their long-term investment strategies for what they believe to be safer options, including money markets and short-term, fixed-income securities.

In spite of all of these concerns, I believe there still are many investment opportunities that offer attractive potential returns relative to the potential risk.

Emerging markets, for example, though carrying significant risk, may be ripe for carefully researched investment, particularly in light of the recent rally and stabilization of oil prices.

Earnings for industrial and materials companies suggest a more positive outlook. Global trade, as well, seems poised for recovery. Couple that with clear political developments in such major emerging market nations as Brazil, Russia, India and Argentina, and you have what I believe are very interesting investment opportunities.

China and Japan, in addition, recently announced significant increases in government spending. This positive fiscal policy, coupled with attractive valuations makes for opportunities worth considering.

In the United States, there is another positive sign for equities. The Federal Reserve reports that total American wealth has hit a new record high — $88.1 trillion. Admittedly, the majority of that increase resulted from increases in real estate values. To me, that just means consumers should start feeling more comfortable about their finances — commonly known as the wealth effect. Investors will feel better about boosting consumer spending, and that is good news for many corporate equities as the consumer makes up roughly two-thirds of our economy.

I also see the global interest in U.S. debt as another positive sign. Last week's auction of 30-year Treasury debt saw some of the highest demand ever from overseas buyers, pushing the yield to the lowest point for the 30-year bond since January 2015. Traditionally, interest in treasury bonds suggested a flight from risk. Today, however, it seems to signal more of a hunt for yield, at least according to some analysts. This suggests foreign confidence in the ongoing strength of the U.S. economy.

While the Federal Reserve kept interest rates stable this month, what about later this year? Despite the uncertainty surrounding when the Fed will act next on interest rates, many analysts say the stock market already has that factored in to prices.

As investors, we can always find a reason not to do something. And unfortunately, markets can have an uncanny way of catching up on investors.

Looking at the 20 years between 1994 and 2013, the Standard and Poor's Index of 500 companies returned 9.22 percent annualized. For those investors who missed the 40 best days during those years, their return was negative! Long-term investors were rewarded for their patience.

Being a good investor is a lot easier when your portfolio reflects what you are trying to accomplish. Keep that in mind as you make decisions today about how you want to invest for all of your short-term and long-term goals.

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