

20,000 DOW

Imagine you are driving a car down a lonely highway at night. You have no idea where you're going or why you started driving in the first place. Because the sun isn't out, and because you don't have a compass, you have no idea which direction you're going. It's disorienting, but you have no choice but to keep driving—because at least if you keep driving, you know you'll end up somewhere.

Then, all of a sudden, you see it: a green sign on the side of the road that reads

MILE 32

That seems encouraging, but a few minutes later, you see another sign that says "Mile 33." Then Mile 34, 35, and so on. The brief spark of excitement you felt is gone, because it doesn't take long for you to realize the truth:

Milestones tell you where you are. But they can't tell you where you're going.

Why am I asking you to imagine all this? Because it's a useful exercise in light of the recent news out of Wall Street: for the first time ever, the Dow has hit 20,000.

The media always makes a big fuss whenever an index (or an average, as the Dow technically is) hits a milestone. That's because milestones are inherently interesting to humans. They suggest a good story, and humans have always been suckers for a good story.

But for investors, market milestones shouldn't be seen as particularly meaningful.

Of course, that's not to say milestones serve no purpose. After all, if you're driving down the highway and you do know where you're headed, a milestone becomes a useful barometer of your progress. Similarly, if you've set a goal for yourself, milestones can be a great motivator. A form of encouragement to keep going.

As far as the markets go, however, a milestone can be a bit like fool's gold: shiny and exciting, but of little value in and of itself. It can even be a little dangerous, because it suggests a story while masquerading as a statistic. Because it fools us into thinking it's the needle on a compass rather than a mere measurement of distance traveled. (A number feels high, so the markets will probably keep going higher! Or, a number feels low, and will probably just keep getting lower!) But really, milestones tell us no such thing. They only let us know where we are. Not where we're going.

The circumstances behind this particular milestone confirm this. Ask just about any market analyst and they'll tell you the Dow hit 20,000 by riding a wave of optimism about President Trump's economic agenda. Take this line from a recent New York Times article:

The recent postelection surge toward 20,000 has been driven by what investors are calling a reflation trade, or a bet that the economy under President Trump will benefit from proposed tax cuts and a move toward more aggressive government spending.¹

Or this one from CNN:

Wall Street is clearly betting that Trump's plans to slash taxes, ramp up infrastructure spending and cut regulation will make the American economy grow faster.²

The key word in both passages is "bet." Investors don't know how much of Trump's agenda will actually be enacted, or if it will work, or if it's even possible. They're simply betting on it. This is a perfectly natural thing to do, because investors have always tried to get ahead by setting educated expectations for the future.

But when that big, round 20,000 is achieved on the back of a bet, it doesn't look quite so momentous, does it? It tells us what investors are doing and feeling right now. It tells us where we are. But it doesn't tell us where we're going.

The point of all this is not to say that the Dow hitting 20,000 is a bad thing. The point is that it's just a milestone, just a story, and we should be properly cautious about both. That's especially true with regards to the Dow. As you probably

know, the Dow is comprised of only 30 companies. Important companies, to be sure, but hardly representative of the overall economy. So 20,000 is not only a story, but a fairly limited one. It would be like watching only the first 30 seconds of the Super Bowl, and then trying to predict the outcome.

So as you read about this milestone or any other, don't allow yourself to get too caught up in the story that goes with it. Don't try to predict where we're going just by looking at where we are.

Instead, do this:

Whenever the markets hit a new milestone, turn off the TV or shut down that internet browser. Try to tune out the noise. Then, focus on your own personal financial journey. Ask yourself: "Do I still know which direction I'm heading? Has anything changed that may have put me off track?" In essence, pull out your personal compass and see which way the needle is pointing. Are you going north or south? Then, make a list of your own milestones. What great things have you achieved lately? How far have you come? And what milestones are you looking forward to reaching over the next few years?

By doing this every time the financial media starts selling the latest story, you'll actually be setting a wonderful habit: consistently reviewing your financial situation and planning your financial future. If there's anything we've learned over the course of our careers, it's that this is the road to success.

After all, milestones are only meaningful when you know where you're going ... and on the road to success, the only story that matters is yours.

We at Hudock Capital will continue watching the markets, tracking your portfolio, and keeping your financial compass pointing north. In the meantime, please let us know if you have any questions or if there is ever anything we can do to help you work toward your own personal milestones!

Sincerely,

Barbara B. Hudock, CIMA®, CPM®
Chief Executive Officer
Founding Partner

Michael J. Hudock, Jr., CPM®
President and Founding Partner
Wealth Consultant

Sources:

1 Landon Thomas, "The Dow Hit 20,000. Now What?" The New York Times, January 25, 2017. <https://www.nytimes.com/.../dow-20000-stock-market-milestone....>

2 Matt Egan, "Boom: Dow hits 20,000 for first time ever." CNN Money, January 25, 2017. <http://money.cnn.com/2017/01/25/investing/dow-20000-stocks/>