Stocks are Riding High But Is it Time to Pull Back on Your Investments?

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By Martha C. White

With the stock market hitting records and passing benchmarks on a regular basis over the past few months, financial advisers say their phone calls and client meetings these days revolve around a pair of related questions: How long will the market continue to rise, and should they go all-in or bail out of the stock market before the air comes out of the balloon?

“It’s not just the ‘Trump rally’ — over the last 12 months, markets are up 20 percent-plus,” said Joseph Heider, financial adviser and president of Cirrus Wealth Management, adding that whether they’re thrilled or anxious, the prevailing question is what — if anything — they should be doing differently now.

“I've definitely been hearing from clients about being concerned the market is at a high and wondering if they should cash in before a crash,” said Dana Levit, owner and principal of Paragon Financial Advisors.

“I find that clients are more concerned about losing the money because of a high market than missing out on a market that could go higher,” she said, adding that this concern has grown as the market passes milestones. “The Dow crossing 20,000 seemed to be a big tipping point for people,” she said.

Remaining Wary

“If we’re hearing anything, it’s concern that something bad is going to happen,” said Joe Duran, CEO and founding partner of United Capital. “Happy but concerned — that would be the best way to put it. They’re pleased with their results but they’re concerned because they’ve been here before,” he said. Duran said many of his investors were in their 50s, old enough to be eyeing their retirement dates, but young enough to remember the last few gyrations of the market.

Their hunch that a correction is around the corner might not be entirely off-base, Duran said. “If you think back to 1999 and 2000, we saw a very similar pattern… We haven’t reached those levels yet, but if we don’t get a pullback somewhere, we might be setting up for a mini bubble,” he said.

Advisers say their main job these days is encouraging investors to focus on the long term. “We tend not to focus on the current level of the indices and instead zoom in on the specifics of their financial plan and goals,” said Debra Neiman, principal of Neiman & Associates Financial Services, LLC.

This is easier said than done in many cases, though, especially since the market rally tends to be viewed through a political lens.

Politically Divided

“I’d say it divides along political lines,” said Chris Chaney, vice president and financial adviser at Fort Pitt Capital Group. “Very much so, the folks who voted for Trump or are amenable to Trump believe this is validation of his agenda.”

These clients are more likely, he said, to push for riskier investment strategies, such as sinking a higher percentage of their assets into equities. “Although there might be concern that the market’s running a little fast, they’re comfortable with it,” Chaney said.

Chaney said that the reverse was true of politically active clients on the opposite side of the spectrum. “The folks who are hostile to Trump or anxious about Trump — they’re very concerned,” he said. “It is a floating anxiety that at times can be fairly acute… They’re asking, ‘Should we cash out or put some money on the side?’ ‘Should we trim or reduce our exposure to more volatile assets like stocks?’”

Regardless of their political leanings, Chaney said his advice to these clients was roughly the same: Evaluate your allocations and risk tolerance and use that — rather than the President's tweets — as an investing guide.

Review Your Portfolio

Advisers try to discourage clients from taking their gains and heading for the hills, since missing out on growth robs an investor not only of a fatter portfolio in the near term, but also of the multiplier effect that lets those assets continue to grow.

"The problem with trying to trade out when a market is high is that you also need to know when to get back in," Levit said.

Advisers do say this is a good time to evaluate what's in your portfolio. Zaneilia Harris, president of Harris & Harris Wealth Management, said there are certain sectors of the stock market investors should be looking at carefully.

"In the current climate, banks and industrials — especially with the goals of the current administration to reduce regulations and increase border control," are stocks to keep an eye on, Harris said.

"I feel the technology industry may be affected because of the current travel ban and its affect on current [employees] and the recruitment of employees," she said. Health care stocks remain in a holding pattern. "It all depends on what is done with the Affordable Care Act," she said.

More broadly, financial planners say this is a good time to look at your mix of stocks and bonds. If you're inclined towards concern that this rally could be on the wane, it's reasonable to tweak asset-class ratios that might have gotten out of whack.

"The thing you need to be doing is rebalancing to get back your target allocation," Duran said. Due to the run-up in stocks, "It's quite possible your overall risk exposure is much higher than it should be, [and] all of a sudden your portfolio is much more prone to decline."

Rebalancing can help investors make sure they're not carrying more risk than they want to, Heider said.

“Because of what’s happened with stocks and relatively low performance on bonds, we’re rebalancing back to where they were, taking 3 to 5 percent of the gain, in essence, off the table and reallocating it back to more conservative investments,” he said.