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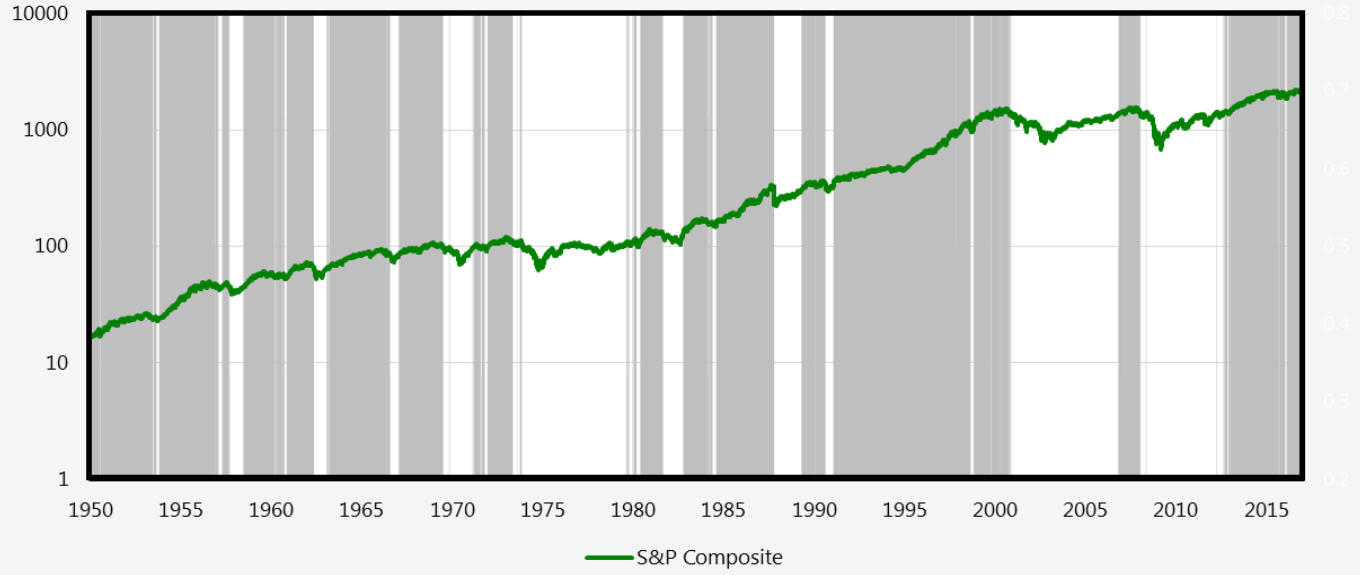
Why New All-Time Highs May Not Be a Bad Thing

The S&P 500® Index close of 2,298.37 on January 25th 2017 marked a new all-time high for what many consider a proxy for the U.S. stock market. On that same day, the Dow Jones Industrial Average also hit a new all-time high, crossing the milestone 20,000 level for the first time. As with the previous market highs this year, the response of many has been one of fear and skepticism. Nearly eight years into the second longest bull market in history, the question on everyone's mind is "how much longer can this last?" While no one can answer this question, and we remain skeptical of anyone who believes they can, perhaps it is a useful exercise to examine just how important a new all-time high in the market really is. To give you a hint, skepticism may be warranted but fear likely is not.

S&P 500 Within Ten Percent of All-Time High



Why You Shouldn't be *TOO* Worried

Highlighted in gray on the chart above are periods of time in which the market was within ten percent of an all-time high. While the last seventeen years may have given investors the impression that a crash is imminent once the market reaches a new high, the prior fifty years show that this is anything but true. The market spends a significant portion of the time at or near an all-time high. Before we get too far ahead of ourselves I want to be clear that this is neither a bull nor a bear argument for stocks. The point that we want to illustrate is that the S&P 500 closing at 2,298.37 for the first time ever, is not in and of itself something to fear. In 1995, an investor who decided that the all-time high had persisted for far too long and sold equities[1], has not been able to buy at that price since.

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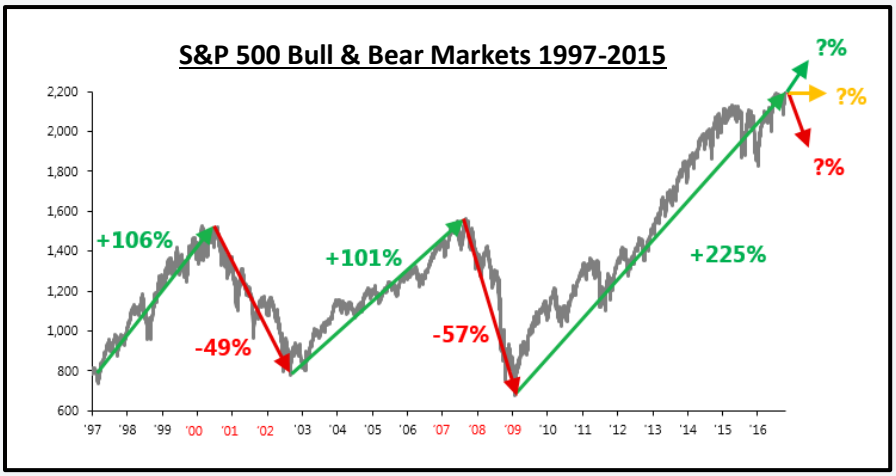

That being said, a correction or bear market will inevitably occur. As the length of time since the last correction increases and valuations potentially become stretched, the likelihood of a correction occurring may increase as well. Looking at the chart to the left[2] it is clear that we have had quite the run over the past seven years. As previously stated we don't know how much longer this can last but there are two things we are sure of: the bull market *can* continue much longer than anyone expects it to, and eventually a correction *will* occur.

Now is a good time to re-examine your portfolios to make sure that you remain comfortable with their current risk level. Reallocating risk exposure to strategies with defensive capabilities may be worth considering. These strategies can strike a balance between continued market exposure and the potential to avoid large losses when the next bear market occurs. Adding tactical managers who have the ability to make rapid allocation changes, or go to cash essentially "de-risking" portions of your portfolio are other options that may make sense at this stage in the market cycle. At the end of the day, using the new all-time high on the S&P 500 as a reason to examine your portfolio's composition is a much better use of time than trying to guess the market's top.

Authored by:
Denis J. Rezendes, Research Analyst

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[1] Represented by the S&P 500® Index
[2] Source: Bloomberg. Data as of November 30, 2016. The returns shown in the chart are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends.

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Beaumont Financial Partners, LLC- DBA Beaumont Capital Management, 250 1st Avenue, Needham, MA 02494 (844-401-7699).

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