SUMMIT
CAPITAL
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Peak View
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Another Great Year For Stocks

With the stock market posting another banner year in 2017 and with the S&P 500 rising 21.8% return (including dividends), many investors are scratching their heads wondering what they should do from here.

If you have previously decided on your target mix between stocks and bonds based on your own personal time horizon and goals, the right thing to do is to just stay the course. However, in light of the great year the market had in 2017, it may be time to re-balance your portfolio back to you original target allocation.

For example, I was just with a client reviewing her portfolio this past week. Her target allocation is 80% stocks and 20% bonds. But as a result of the market rise in 2017, her portfolio is now 86% stocks and 14% bonds. By re-balancing her portfolio back to the originally decided 80/20 she is taking some stock market profits "off the table" automatically and methodically without trying to guess what the market will do in 2018. Should the market have another unusually good year, we will dial down her stock exposure again next year this time. Should the market have a down year and as a result and her portfolio is 75/25 stocks to bonds at year end 2018 we will be do just the opposite.

The key ingredient to successful long term investing is not trying to outsmart the market, but letting your predetermined allocation guide your investment decisions. By re-balancing your portfolio annually, you are essentially trimming the part of your portfolio that has risen above your target allocation (selling high) and adding to the part of your portfolio that has dipped below your target (buying low). Something that I have learned over my long career is that investors that follow this discipline usually do just fine over the long term, and those that think they are smarter than they are by trying to out think the market's next move usually do not fair as well.

Bitcoin

It is hard to turn on the financial media and not hear some commentary about Bitcoin, the so called digital crypto currency. Bitcoin was valued at $968 at the start of 2017 and ended the year at $14,292 an increase of 1,400%!

I have read several articles and heard several discussions about Bitcoin and still do not completely understand what it is, much less how to value it. When it comes to investing, I can only relate to or consider investments that I can reasonably estimate at least some *intrinsic value.* For example, the value of income producing real estate can be reasonably valued by subtracting all of the operating expenses from the rents collected and assigning a value to the net cash flow. Similarly, a business can be reasonably valued based on its net profits and the realistic prospects of future profits. Bitcoin to me is nothing more than pure speculation, *there is no intrinsic value.* The Bitcoin mania so much reminds me of internet start up stocks that debuted during 1998-2000. Back then any stock that had ***.com*** in its name was bid up to ridiculous levels only to fall to zero in many cases. Profits? Forget profits! Many of these companies did not even have revenues! And if you questioned these valuations people would say "*you just don't understand, this is a new era and the old rules of valuations just don't matter"* I am now hearing similar words echoed regarding Bitcoin.

Wishing you a healthy and prosperous New Year.

Best Regards,
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