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Independence Day

Very quietly, the United States economy crossed a remarkable milestone. As of October, America is now energy-independent for the first time. For comparison purposes, the U.S. was spending a whopping 4% of its total gross domestic product to buy foreign oil and gas as recently as 2008.

This news will not be cheered by environmentalists: the dramatic shift is the result of an increase in crude oil and natural gas production from American wells. The U.S. is now the largest exporter of petroleum products in the world—bigger than (#2) Russia and (#3) Saudi Arabia—and analysts expect output to accelerate from here.

However, there has been a small but significant acceleration in renewable energy: today, according to a recent article in Fortune magazine, roughly 18% of all electricity in the U.S. is produced by solar, wind and hydroelectric dams. Renewables' share of U.S. energy consumption has doubled since 2008, while coal's share has fallen from 48% to 30%.

Energy independence, of course, has many implications for the American economy. One is that, as we are reading that the OPEC oil cartel is planning to lower output in an effort to raise global oil prices, the U.S. economy will be largely immune from the rising costs. Another is that the U.S. balance of trade with the rest of the world will be on a more positive footing. And perhaps a third is that, for the first time, total U.S. energy consumption is actually falling, albeit slightly, as energy efficiency initiatives are taking hold.

Higher Estate Tax Exemptions

For a retirement plan, inflation is an implacable enemy, eroding the value of your dollars over time. Your investment goal is always to try to beat the constant, insidious reduction of your money's value—which is why you never hear a financial advisor recommend an all-cash portfolio.

But every once in a while, inflation brings a bit of good news along with the bad. Case in point: the Internal Revenue Service has raised estate tax exemptions due to higher inflation. Individuals will, in 2019, be able to give a total of $11.4 million to their heirs before 40% estate taxes kick in, up from $11.18 million in 2018.

The annual exclusion for gift taxes—that is, the amount that Americans can give away to individuals without paying gift taxes—remains at $15,000 a year.

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The Biggest Danger

Here's a trick question: what is the biggest danger to your long-term investment results? If you answered something like "market downturns" or "downside volatility," you're not only missing a bigger danger, you may be missing the way investment markets work.

As you can see from the accompanying chart, there have been a lot of market setbacks since 1896, and yet the overall trajectory of the market (as you undoubtedly already knew) has been a fairly steady rise. The longest recovery times in modern history—25 years during the Great Depression, 16 years during the stagflation period of the 1970s—are also the only times when someone with a time horizon of more than 10 years would have seen a loss after hanging tight for the full decade. The recovery time from the severe downturn in the Great Recession was just 6 years.

And this chart is a logarithmic trajectory, meaning that the jump from a Dow of 10,000 to 20,000 is roughly the same as the jump from 30 to 50. The trajectory would have been much steeper if plotted on an arithmetic basis.

So what's a bigger danger than something awful like the Great Recession? Investment experts talk about a human failing called "policy abandonment," which is a fancy way of saying that the investor bailed on the markets, generally at the wrong time. Suffering a significant decline in the Great Recession was temporarily painful, but what about the people who abandoned their portfolio allocations and retreated to cash at or near the bottom, because they just got too nervous about what the market would do the next day or the day after? They locked in those losses, moved to the sidelines and found themselves with permanent—rather than temporary—portfolio losses.

The lesson of the chart, as its author Chris Kacher points out, is that the stock market is long-term driven by the intelligence, creativity, innovation and hard work that people working in various companies put into their jobs every day. The value of companies tends to rise, but fear sometimes makes people sell their stock at lower prices which, up to now, have always recovered to reflect that growing value.

The recent turmoil in the markets is certainly unsettling, but it's nothing compared with the Great Recession, the Great Depression—or, probably, the next significant bear market, whenever it comes. That next downturn will present us with the illusion of danger (a temporary market decline) and some will take the opportunity to embrace real danger—the danger of "policy abandonment" that makes temporary losses permanent.

Believe At Your Own Risk

We're about to enter that exciting time of year when all sorts of market predictions are made by people who are mostly claiming that they knew the future and have accurately predicted it over a great track record. If you're smart, you'll turn off the TV or move on to the next article.

The truth is that none of us can accurately predict the movements of the markets. If we could, then we would always make trades ahead of market moves, and it wouldn't take long before that amazing prognosticator with the working crystal ball would have amassed billions off of his or her stock market trades. Have you read about anybody doing that lately?

Most of these people are employed at think tanks or sell their predictions to credulous investors. Would they need that salary check or your hard-earned subscription dollars if they had the ability to make billions just by checking the 'ol crystal ball a couple of times a day?

A recent article by frequent blogger Barry Ritholtz offers some rather amazing data on people in the prediction business. You may know that the cryptocurrency known as "bitcoin" is now worth about $3,500—way WAY down from the start of the year. So how well did the people in the prediction business foresee that downturn?

Not well. In his article, Ritholtz noted that Pantera Capital predicted that Bitcoin would be selling for $20,000 by the end of this year. Tom Lee of Fundstrat was more bullish, forecasting that bitcoin would breach $25,000 by now. Prognostications by Anthony Pompliano, of Morgan Creek Digital Partners, were still more bullish, predicting bitcoins worth $50,000 by the end of this year. John Pfeffer, who describes himself online as "an entrepreneur and investor," anticipated $75,000 bitcoins by now, and Kay Van-Petersen, Global Macro-Strategist at Saxo Bank, one-upped everybody with his prediction that bitcoins would be worth $100,000 by December 31 of this year.

Ritholtz offers other examples, like radio personality Peter Schiff telling listeners since 2010 that the price of gold has been hiding toward $5,000 an ounce. (It's riding around $1,200 currently.). Jim Rickards, former general counsel at Long-Term Capital Management, is more ambitious, telling his followers that he has a $10,000 price target for an ounce of gold.

If you happen to follow former Reagan White House Budget Director David Stockman, you have been told that stocks are going to crash in 2012, 2013, 2014, 2015, 2016, 2017, 2018 and 2019. Someday he's going to be right, and will no doubt be touting his amazing prediction abilities.

When you read about a prediction, instead of reaching for the phone to call your financial advisor, try writing the prediction down on a calendar or reminder program like the app followupthen.com, and come back to it a year later. Chances are you'll be less impressed then, than you might be now.

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What We Don't Know We Don't Know

We all know that the stock market tends to go up more often than down in the upcoming month of January—right? This is known as the "January effect," first discovered by Sidney Wachtel in an article in the Journal of Business of the University of Chicago.

And we know that market downturns tend to take place in the fourth quarter of the year—October, November or, sometimes, December. Knowing these things, you also know that if you put your money on the table in January, and take it back off the table and retreat to cash in September, you're likely to come out ahead.

The problem is that these things actually aren't true; no month is statistically likely to produce an upturn or a downturn different from any other month. If you don't believe this, look at the accompanying chart, produced by OfDollarsAndData.com. It shows that the spectrum of returns over the past 98 years is almost identical from month to month.

In fact, the January Effect pretty much evaporated as soon as Wachtel's article was published. Why? Because more people began following his advice, meaning that stock prices were bid up before January, causing January returns to level back out.