



Perspective – Are You Playing a
Long-term Game With a Short-term
Strategy ?

This paper shares with you a perspective and truths that could be important to your planning, investment strategy and retirement. If those matters are important to you, read on.

Let's go back in time.

It's 1975.

- The S&P 500 index ends the year at 90.19.
- Earnings are \$7.71 per share
- Dividends paid are \$3.73 per share
- PE Ratio is 11.7
- Dividend yield is 4.1%
- The US has 216 million people
- Real GDP (adjusted for inflation) is \$5.49 trillion.

(Source of data: Nick Murray newsletter December 2015.)

During 1975:

- Saigon falls to the North Vietnamese
- President Ford escapes two assassination attempts within 17 days
- Margaret Thatcher becomes the 1st woman leader of Britain's Conservative Party
- Andrei Sakharov, the great hero of Soviet resistance, wins the Nobel Peace Prize.
- Saturday Night Live debuts in October as does Wheel of Fortune in January
- Jimmy Hoffa is reported missing (and still is)
- The Edmund Fitzgerald sinks off of Whitefish Bay in Lake Michigan
- Ronald Reagan challenges President Gerald Ford for the Republican nomination.
- An American and a Soviet spacecraft link up in space and the event is memorialized on a ten-cent US postage stamp.

Glide forward 10 years. It's 1985.

- The S&P 500 index closes the year at 211.28.
- Earnings are \$15.68
- PE Ratio is 13.5
- Dividends paid are \$8.20
- Dividend yield of 3.9%
- The US has 238 million people
- Real GDP of \$7.71 trillion.

(Source of data: Nick Murray newsletter December 2015.)

During 1985:

- Ronald Reagan sworn in for his 2nd term as POTUS
- Mikhail Gorbachev comes to power in the Soviet Union
- Gorbachev and Ronald Reagan meet
- The cruise ship Achille Lauro is hijacked in the Mediterranean by Palestinian terrorists.
- The Internet domain name system is created

1985 continued-

- Windows 1.0 is published
- The 1st successful heart transplant takes place
- The song of the year is “We Are The World”
- Coke introduces New Coke (biggest marketing blunder in history)
- A US postage stamp costs 22 cents

Fast forward 10 more years. It’s 1995.

- The S&P 500 index closes the year at 615.93.
- Earnings are \$37.70
- Dividends paid are \$14.17
- Dividend yield is 2.3%
- PE ratio of 16.3
- The US has 266 million people
- Real GDP is now \$10.29 Trillion

(Source of data: Nick Murray newsletter December 2015.)

During 1995:

- The Oklahoma City bombing takes place – our worst domestic terrorist atrocity in American history. 168 people are killed by Timothy McVeigh and Terry Nichols.
- OJ Simpson’s murder trial begins and ends 10 months later with his acquittal
- Mississippi is the last state to abolish slavery
- Israeli Prime Minister Yitzhak Rabin is assassinated.
- Ten people are convicted in the 1993 World Trade Center bombing
- The Rock n Roll Hall of Fame opens in Cleveland
- For fans of the Grateful Dead, a sad year as Jerry Garcia dies
- The US postage stamp now costs 32 cents

Flash forward to 2005.

- The S&P 500 Index closes the year at 1,248.29.
- Earnings are \$76.45,
- Dividends paid are \$22.38 per share
- Dividend yield of 1.8%
- PE ratio stands at 16.3
- Global population now stands at 6.5 Billion.
- The US now has 296 million people
- Real GDP is \$14.37 Trillion.

(Source of data: Nick Murray newsletter December 2015.)

During 2005:

- Hurricane Katrina devastates New Orleans and the Southern US coast (a land mass larger than Great Britain)
- Saddam Hussein goes on trial for his life (and it does not end well for him)
- July 7 becomes London's 9/11 as coordinated attacks on the bus and subway system kill 52 people
- Pope John Paul II dies. (He will be canonized just 9 years later)
- The US housing bubble begins to burst
- The Motorola Razor is the most popular cell phone
- And, the US postage stamp now costs 37 cents

Swipe forward to 2015. The year is not quite over but it's close enough.

- The S&P 500 Index closes the year at 2043.94.
- Earnings are estimated at \$116.67 for 2015
- Dividends are expected to be \$43 per share.
- The PE is 17.75
- Dividend yield is 2.1%.
- Global population now stands at 7.29 billion people.
- The US population is 322 million,
- Real GDP as of 9/30/15 is \$16.39 Trillion.

(Source of data: Nick Murray newsletter December 2015.)

During 2015:

- ISIS is causing chaos carrying out attacks in Paris and elsewhere
- Refugees are pouring into Europe in the largest human migration since WWII
- The world's leading nations reach some type of accord on Iran's nuclear development program (I wonder what we'll say about this in 2025)
- iPhone 6 is introduced
- Yogi Berra dies
- Hip replacements are done on an almost outpatient basis
- A postage stamp is 49 cents – and scheduled to increase

Summary of four decades:

	1975	1985	1995	2005	2015	% Change 1975-2015
S&P 500 Index	90.19	211.28	615.93	1,248.29	2043.94	2166%
Earnings / share	\$7.71	\$15.68	\$37.70	\$76.45	\$116.67 ¹	1417%
PE Ratio	11.7	13.5	16.3	16.3	17.5	
Dividend / share	\$3.73	\$8.20	\$14.17	\$22.38	\$44.97 ²	1052%
Dividend Yield	4.1%	3.9%	2.3%	1.8%	2.1%	
World pop.	4.1 Billion	4.85 Billion	5.7 Billion	6.5 Billion	7.29 Billion	77.8%
US population	216 Million	238 Million	266 Million	296 Million	322 Million	49%
US Real GDP	\$5.49 Trillion	\$7.71 Trillion	\$10.29 Trillion	\$14.37 Trillion	\$16.39 Trillion	198%

1. S&P Capital IQ Consensus Op Earnings 1/29/16
2. Barrons's 1/4/16, Indexes, PE's and Yields

- Global population is up nearly 80% yet human poverty has decreased from one in two to one in ten. This is creating a new mass of consumers.
- The US population is up by 50% and our nation still has plenty of space. Our population density (measured per square mile) is 85. France is 300, Germany 590, Britain 680 and 870 in Japan.
- The US has a hundred years of hydrocarbon energy reserves
- US Real GDP more than tripled – on a 50% population increase
- The S&P 500 Index rose 2,213% (that's a 22 x factor or an 8.2% average annual growth rate)
- Earnings increased 1,430%
- Dividends increased 1,133 %
- Increase in the CPI over this time period – about 450% (4.4% average annual inflation)
- And that US postage stamp... it rose 390 % (4.1% average annual cost increase)

What does one make of all this?

I have noted just a few of the many events that happened during these 40 years. Some were pure evil, others wondrous and amazing. What you must realize is that the free market spread throughout the world alongside a demonstration that communism and socialism do not work. The world made exponential progress in information technology and health technology...and this is assured to continue.

This time period has surely seen the greatest accretion of wealth by the greatest number of people in the history of the world. The great underpinnings of this spectacular economic and financial progress? How about the ***spread of the free market*** (communism and most extreme iterations of socialism vanquished) and ***exponential progress in information technology***.

Today, grade school children carry more computing power in their backpack than the state-of-the-art mainframe computer had in 1975.

There is a man, Lowell Wood, now age 74, whose lifetime patents now exceed Thomas Edison's and he has thousands more in progress. He ridicules the notion that technological innovation is topping out. In his words: "It's irrational. It's frankly illiterate to not be optimistic. We're going to see a blossoming across essentially every front, unprecedented in human technological history. This is not something that's hoped for. This is baked in the cake."

So, what do you believe? Should you believe the media that trots out the woes of the world all day, every day or should believe the optimists (who have been proven right time after time)?

Your investment results, your lifestyle and your retirement will determined in great part by your outlook. Sacrificing most of the permanent returns of equities in exchange for protection from their temporary volatility is an irrational long-term strategy.

If you'd like to discuss what these insights mean for your financial planning, your investment strategy or your retirement plan, please call or send an email. A new worldview (or a 2nd opinion) might be exactly what you need to achieve that which is truly important to you.

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