Time for a time-out

One can only marvel at the pace of activity in Washington these days and wonder where it all will lead. It's one thing to go right to work fulfilling campaign promises, but it's certainly another when it involves friction with foreign leaders, frenzied judicial action, and widespread protest activities.

Yet, in the midst of this, the euphoria on Wall Street continues so one can only wonder what's wrong with this picture. Although increased market strength is typical during the colder months, stock valuations are being stretched toward the upper end of what has traditionally been considered a normal range. Better prices in this new year are not an unreasonable expectation, but only if they are supported by proportionate increases in underlying profitability.

When higher prices are supported by rising earnings, the level of risk stays about the same, but when higher prices come from higher price-earnings multiples, risks increase substantially . . . as they are now. And investors are beginning to paint themselves into a corner.

It's now eight years since the Great Recession of 2008-9. The U.S. economy and investment markets have rebounded from the depths of that time and moved to new high ground. The situation abroad, however, has been nowhere near as encouraging. European nations are still foundering and the progress of their investment markets has fallen far short of what we've experienced here.

Even so, there appears to be considerably greater potential for gains in those markets, especially when compared to the U.S., where market gains already achieved may be reducing what may be available in the future. However unpalatable it may seem to be, buy ugly and sell pretty has often been a successful approach.

With the prospect of further interest rate increases from the Federal Reserve, it's no surprise that bond prices remain under pressure. And, for that matter, there's been a spillover into real estate as mortgage rates creep up.

What to do? Lower your risk exposure. Shift a portion of your holdings from the U.S. to international markets and consider alternate investment opportunities to help absorb occasional market shocks.