StraightTalk
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So, What Do We Do Now?

What a difference 60 days makes! When I wrote the April edition of this newsletter, the stock market was on a trajectory suggestive of the end of our economy. Today, there are glimmers of hope economically as we begin to slowly resume activity, and prices are reflective of that hope. Yet, there are still many of our fellow citizens in financial peril, and coupled with nationwide protests and demonstrations – these remain turbulent times.

However, as we frequently discuss in our conversations – the "stock market" does not care if things are good or bad today; it is interested only in whether things are trending better or worse in the near future, and at what rate. Business leaders in every sector of our economy must assess what the near future opportunities or difficulties are for their companies, so that they can make decisions on how to allocate capital today. Similarly, we, as investors in those great companies, must assess how the future looks for them, as we invest today. Which is basically impossible, if you think about it.

All of the facts we have about the specifics of any company; revenues, earnings, dividends, etc., *are from the past,* as are all of the facts about the economy as a whole; rate of growth, sector rotation, winners and losers, etc. Trying to extrapolate the future environment for a specific investment using data on that investment from the past is a difficult undertaking, if not an impossible one. As my industry is famous for disclaiming – past results do not guarantee future success – and yet an entire cottage industry has been created specifically for the ranking of investments based on past performance! Given that the future is always unknown, but perhaps has never seemed more unknowable than it does today – the question many are asking is "So, what do we do now?"

Surely for some investors, that question is being asked because of their decision to sell out of their invested portfolio into the temporary haven of cash, only to watch the market zoom back above the levels where they exited. For a much larger group of investors, that question is asked in a more general sense….without any historical precedent of a shuttered economy to draw on, what can we expect next, and how do we invest for it right now?

My answer is that no one should be investing for *now*, despite what the hawkers of the product du jour offer on TV. Real people should be investing for the future – for some people this means a retirement still years away, for others, it is for living through a two-decade retirement, and for others still, for generations to come. Simply put, *now* is not the time frame for any investment. Now is fleeting. Now can be a multi-percent gain because of a surprise headline or positive news tidbit, or now can be a multi-percent decline because of a negative policy speech or disappointing report. So, if the facts are all from the past, we don't invest for now, and the future is unknown…what is an investor to do?

Put another way – given that we cannot predict anything, the question really becomes how should we plan? Because all portfolios begin with a plan. So, if your plan has not changed, then your portfolio shouldn't either. Think back to January, as the new year began – your plan likely centered around a few primary goals; building that retirement nest egg, enjoying a dignified, independent retirement, educating kids or grandkids, and/or a financial legacy of some sort. The pandemic hasn't changed those goals, nor has the market's wild swings, nor has the President, Congress, the Fed, the protests, or any other of the *now* headlines that invade our day each and every day.

No…the plan always endures, and it serves as a guide for all investment decisions and behavior. We know, for instance, that the investment with by far the greatest historic probability of getting you to your planning goals is owning the great companies of

America and the world. We also know that, as part of the bargain, the prices of those companies, will for reasons that differ each time, drop by about one-third every five to seven years. But simply knowing this fact does not stop the uneasy feeling that comes each and every time it happens. And, here's the kicker – when it does happen, you are more likely to watch the news about it happening, which only makes you feel worse! As I mentioned in my most recent video – watching just three minutes of news increases the chance you will say you had a bad day by 27%. So, the answer is simple…much less focus on the news of *now*, and much more focus on the plan for the future.

Admittedly, that may be easier said than done, particularly when one of the side effects of staying at home during the pandemic has been increased time in front of the television. However, I implore you to not allow the negative, sensational headlines to seep into your thoughts. Not one of those so-called experts cares about you, knows anything about your goals, or has your best interest at heart. They are all carnival barkers – trying to get your attention in as many outlandish ways as possible. The divisiveness of today's news outlets either serves to confirm your biases, or make your blood boil at the opposing view – which is precisely their goal. As it relates to financial journalism – it is almost exclusively focused on the *now*, which is of no help to those of us hewing to a multi-decade plan, and a classically diversified portfolio in support of that plan.

Ironically, part of the process of building that plan does make use of the past to inform the future. However, the data points that are of value are not specific to a company's past execution, or a sector's recent strength, or worse, the correctness of any previous predictions. These may or may not have any forecasting value as to what comes next. But by using large spans of time that encompass a variety of economic conditions, and always involve human behavior (which remains consistent and predictable) – you can make use of history to plan for the future.

For example, when the prices of the great companies of America and the world go on sale, as they do an average of every five years or so, you can expect the public's same fear based decision making to come into play. In this particular pandemic-driven market selloff, a tsunami of money came out of stocks and went into cash and bonds. Now, you don't need a degree in statistics from Stanford to know that most multi-decade financial goal plans are not supported by earning zero in the portfolio. And when you look at Treasury yields and interest on cash, and strip away inflation, that is what you get. (Actually, the result is a loss, but I digress…)

Assuming that most investors understand this on some basic level, we must conclude that they are not changing their lifetime investment mix permanently – they are doing it until "things feel better." This is another word for market timing, which has not been proven to work consistently by any human who has ever tried it. There were certainly days or weeks when it felt better to be in cash – until it didn't, and once again, John Q Investor has jumped out of the train, only to watch it continue on to the destination without him onboard.

You can set your watch to these emotion driven behaviors, of which I used to believe there were two; fear and greed, but which I now know are actually the same emotion; fear. Either fear of loss, or fear of missing out. This explains the market's stunning reversal after the March lows, resulting in the strongest 50-day rally in the history of the market. And this 45% move up from the bottom occurred while there is still a record $4.8 trillion in money market funds across the country. What happens when some of that cash has enough fear of missing out and gets invested again can only be a good thing for those of us already in the market.

At the end of the day, any plan must be based on reasonable assumptions of the future, which can be ascertained from the span of history. The folks at Capital Group have done the research, and it marginalizes the idea of *now*. "While every market decline is unique, over the past 70 years the average bear market has lasted 14 months and resulted in an average loss of 33%. By contrast, the average bull market has run for 72 months, *or more than five times longer*, and the average gain has been 279%." In light of that, when asked the question, "So, what do we do now?" – my answer remains "stick to the plan."

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