Does price matter?

Consider a simple example. Three people all purchase the exact same airline ticket. Same day, time, flight, section of the plane, and boarding preference. But one pays $300, another pays $500, and third person pays $700. Does it really matter?

How do you feel, if you’re the individual who paid the $700 for the airline ticket? Let’s set this example aside for a moment and come back to it shortly.

We all understand the relationship between risk and return

The following graph depicts the relationship between risk and return. It is a relationship that we are comfortable and confident with. It is what we have experienced and we’ve come to expect.

Accepting more risk (by investing in stocks instead of cash or bonds) delivers more return. This relationship is why we all invest in stocks, in larger or smaller proportions. This relationship is why so many investors hold portfolios that are allocated 60% to stocks, or more.

But is this relationship dependable, is it consistent?

Consider several periods out of history when cash (a simple money market fund) returned more than stocks. Similarly, consider several quite lengthy periods when super-safe U.S. Treasury bonds outperformed stocks.
Conclusion, even if we give stocks a long period of time to deliver their expected higher rate of return, they don’t always do so. In fact, there have always been (and always will be) exceedingly long periods of time when stocks earn less than cash or intermediate-term U.S. Treasury bonds. It’s almost as if the risk/return relationship has been turned on its head.

**Does price matter?**

How do we explain this? How do we understand that even over 15, 20, or even 25 years, the riskier investment (stocks) could return less than the safer investment (cash or Treasury bonds)? The answer of course is that price does matter. You paid $700 for your airline ticket, while your fellow passenger paid only $300. And with the $400 that she saved; she was able to buy an additional first-class ticket to Hawaii.

**What’s to be done?**

Investment professionals understand this issue well and recognize that in today’s market, price is unusually relevant. Your financial advisor has a menu of possible investment solutions that are directly relevant to this peril. But the solution that is most appropriate to your unique needs and circumstances can only grow out of a meaningful discussion with your advisor. Reach out to them, talk with your advisor.

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Important disclosures

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