Gobbledygook

Occasionally, the investment industry spins stories and promotes gobbledygook with the objective of distracting, confusing, or just doing whatever they can to get the poor investor to follow a certain course of action benefiting the industry itself. This is unfortunate because it erodes confidence, trust, and the investor realizing a successful life-long financial journey. Today, we face an unusually pernicious example of gobbledygook, i.e., the suggestion that because the U.S. economy will grow, prosper, and strengthen over the year ahead, so will the stock market.

For a mind with too many soundtracks playing simultaneously . . . this example couldn't help but make me think of Sheryl Crow's 1998 recording of *"My Favorite Mistake"* (written by Crow and Jeff Trott)

"You're my favorite mistake

Your friends are sorry for me

They watch you pretend to adore me

But I'm no fool to this game"

Let me backup and try to explain.

Fake news

Let's stay tightly focused on just the U.S. economy. We know an awful lot about how our economy's doing . . . and what's going on. We understand its strengths, weaknesses, imbalances, and prospective path over the year ahead. This is simple straightforward macroeconomic science. No, we don't know exactly what will happen. But we are able to draw well-reasoned, solid, and high-confidence understandings that the U.S. economy is on a favorable trajectory. It will grow, strengthen, heal, and prosper. Labor will gain a larger share of an ever-expanding economic pie. Productivity will grow rapidly, inflation will come down, and the existing income/wealth disparity will shrink. Vast new industries are being given birth that will result in long-term accelerating growth for the U.S. economy, vast new job creation, and supportive tax revenue for vital municipal infrastructure. All of this is intensely positive. And I'm quite thankful.

So, what's the problem?

The problem is the investment industry fabricates a false narrative and uses it to promote self-serving sales. The fake news is that a stronger economy results in higher stock market returns (and vice versa). This is particularly tragic because the investment industry knows all too well that this narrative is false and misleading. That it lacks the slightest shred, the most di minimis aspect, of supporting evidence. Really? Here's the data . . .

Integrated Financial Partners, Inc.
200 Fifth Avenue, Suite 4010 • Waltham, MA 02451
Phone 781-890-3045 • Website https://integrated-partners.com/

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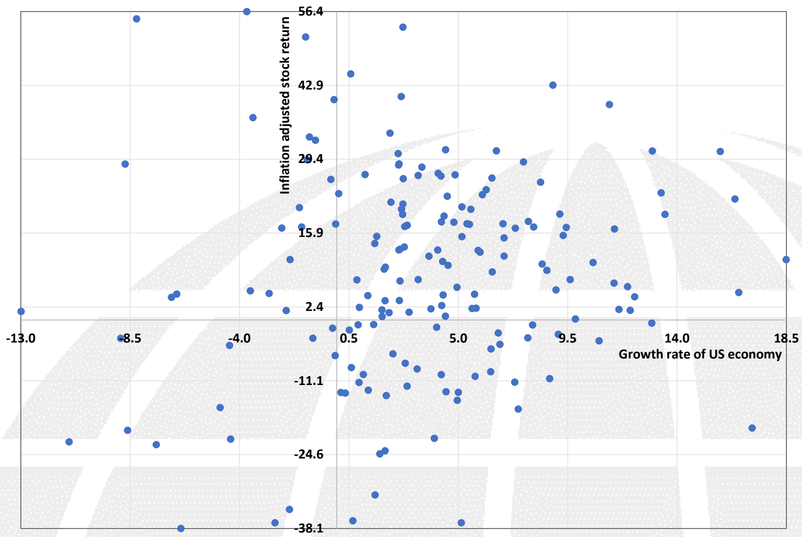


Consider just the years that delivered the worst (lowest) stock market returns (32% of all possible years)

These were the years when stocks earned less than +0.75% (after inflation was subtracted out)

During these years, the US economy grew 2.5% (during an average year)

Consider just the years that delivered the best (highest) stock market returns (17% of all possible years)

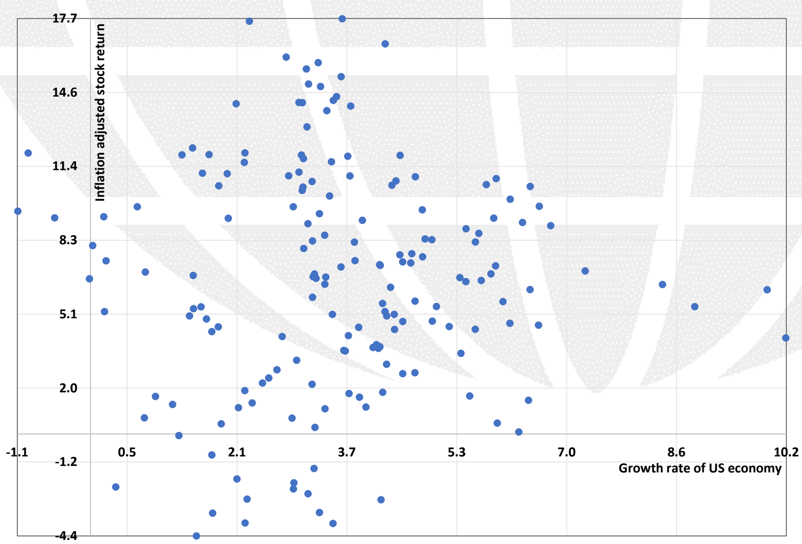
These were the years when stocks earned more than 26% (after inflation was subtracted out)

During these years, the US economy grew 2.6% (during an average year)

The horizontal axis shows how fast the U.S. economy grew. The vertical axis shows what the stock market returned. As this graph demonstrates, there is virtually zero relationship between the growth rate of our economy and what the stock market returns. In other words, it's purely random.

But Rob . . . you need to give it a longer period

The immediate and natural (and fair) pushback is that if given a longer time period, such as ten years, the positive relationship between U.S. economic growth and the returns of the stock market will come clear. Utter nonsense. No, it does not! Really? Here's the data . . .



Consider just the 10-year windows that delivered the worst (lowest) stock market returns (18% of all possible 10-year periods)

These were the 10-year windows when stocks earned less than +1.75% (after inflation was subtracted out)

During these 10-year windows, the US economy grew 3.0% (during an average 10-year period)

Consider just the 10-year windows that delivered the best (highest) stock market returns (30% of all possible 10-year periods)

These were the 10-year windows when stocks earned more than 9.25% (after inflation was subtracted out)

During these 10-year windows, the US economy grew 3.2% (during an average 10-year period)

As this graph demonstrates, even if we restrict our view to 10-year time periods (and nothing shorter), the relationship between the growth rate of the U.S. economy and the return on the U.S. stock market is not too far from zero.

Why am I bringing this up?

The investment industry knows and has always known, that it's engaged in misleading and hurtful gobbledygook here. So why am I bringing this topic up? Because forewarned is forearmed. Your objective is to achieve a successful, rewarding, fruitful life-long financial journey. One that is experienced with absolute confidence and unqualified comfort. This remains eminently doable. It really does. But it's undermined by false prophets who shamelessly pretend they can predict the future turning points for the stock and/or bond markets based on their crystal ball forecasts for the U.S. economy. Such approaches are in direct contradiction of any and all past data. And such approaches meaningfully undermine and diminish your prospects for achieving a life-long fruitful financial reality. Run from such carnival barkers.

Investment professionals understand this issue well . . . and recognize that in today's market, planning, structure, patience, engagement, and humility are the critical building blocks of a successful journey. Or to put it differently, behavioral bias must be securely locked inside the cage, and serious/genuine experience and training must be brought to bear.

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.

Rob Brown, CFA, PhD
Chief Investment Officer
Senior Vice President
Integrated Financial Partners, Inc.
Integrated Wealth Concepts, LLC

Important disclosures

All data and statistics were provided by Global Financial Data (unless otherwise noted). Based on data from 12/31/1839 through the present. All stock market returns are represented by the S&P 500 Total Return Index. All stock market and economic growth data are inflation adjusted by the CPI.

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Integrated Financial Partners, Inc.
200 Fifth Avenue, Suite 4010 • Waltham, MA 02451
Phone 781-890-3045 • Website https://integrated-partners.com/