Counterintuitive - Several quite positive developments

Recession and bear markets

At some point, right around here . . . we'll have an economic recession, stock bear market, and bond bear market. The trifecta. That doesn't sound so good. One, two, or all three of these have already begun. These types of corrections aren't much fun. They breed worry, doubt, concern, and even outright fear. Investors may question whether their future is diminished or worse yet, broken. Such concerns may be well-placed if one must withdraw and spend a clear majority of their net worth over the next zero to five years.

However . . . if you're evenly and smoothly spreading out your expenditures over the next 20, 30, or 40 years, then having bear markets and an economic recession are remarkably positive developments. Disruptions that will inevitably lead to a brighter, more bountiful, and dependable life-long financial journey.

Wow! How can this be? But it is . . . let me put a bit of flesh on the bone, attempting to explain.

Our economy and investment markets are living breathing "animals." As such, they follow highly dynamic paths over time, evolving and responding to stimulus. They benefit from and even require challenges in order to overcome internal deficiencies and to grow stronger. Let me use an analogy . . . to build out our understanding. Consider the history of forest management.

Necessity of fires and windstorms

Long ago (ok, so maybe not all that long ago), it was falsely believed that the best way to manage a forest was to prevent forest fires and windstorms. Eventually, we learned just how incredibly naïve and destructive such a simplistic static view really was. Today, we understand that a healthy, thriving, and growing forest requires regular periodic fires and windstorms.

These "destructive" forces serve several invaluable purposes . . . they serve to (1) reallocate forest resources from less productive to more productive, (2) eliminate the slow growing and stagnant, and (3) remove the diseased and pest-ridden. Without these beneficial perils, the forest eventually becomes sickly, stops growing, and declines.

The economy is no different. A healthy thriving macro economy requires recessions, growing unemployment, and corporate bankruptcies. These are the economy's fires and windstorms. These perils serve to (1) reallocate labor and capital from less productive to more productive, (2) eliminate the slow growing and the stagnant, (3) retire outdated and backward-looking industries, and (4) drive innovative training and education for new types of jobs. Without these painful corrective forces, the economy eventually becomes sickly, stops growing, and declines.

Investment markets operate in a similar fashion. Healthy thriving investment markets require bear markets, individual investors “losing their shirts,” and the failure of individual investment firms. These hurtful forces serve a necessary and vital purpose. They help us by: (1) reallocating investment capital from less productive to more productive, (2) starve the slow growing and the stagnant, (3) purge the disruptive speculators from the marketplace, and (4) correct the all-important tradeoff between forward-looking risk and return. Without these investment market “fires” and “windstorms,” investment markets become sickly, stop growing, and decline.

Bottom line . . . we want and need bear markets and economic recessions. Their regular and periodic occurrence results in a healthy, growing, and prosperous economy and rewarding efficient investment markets. As a result, the long-term life-long investor benefits.

Eventually, now or in the future, we’ll be passing through a recession, bond bear market, and stock bear market. If you’re spending down your accumulated wealth over the next 20 to 40 years . . . then this unsettling but quite temporary episode will be a remarkably positive development. The forthcoming cleansing forces will serve to create a more productive and rapidly growing economy . . . and a more attractive investment marketplace offering greater opportunities.

Are you prepared, are you best positioned?

What’s to be done?

- Don’t react with emotion . . . all will be good and rewarding on the other side of the valley or disruption that we’ll be passing through.
- If you’re going into the coming turbulence with investment positions that are (1) driven by emotion, (2) built around story-telling, (3) favor the next get-rich-quick scheme, or (4) depend upon trees growing to the sky . . . then admit so, sell off your portfolio, and find yourself a new investment advisor.
- Or . . . if you have the perfect portfolio for the last 38 years (the period since the last interest rate peak) . . . then you’ll experience (to put it bluntly) a disastrous future.
- Invest for your life-long spending needs, not for the next three, four, or five years.
- Avoid anyone who attempts to forecast and predict investment market turning points - that’s a fool’s errand.

Your financial advisor has a menu of possible investment solutions that are directly relevant to the dynamics mentioned above. 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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