Should I Make any Changes to My Investments?

Why might one ask this question?

Because their account is down, they've lost money, and the headline news is overwhelmingly negative and getting worse, fast. They thought that matters were recovering, getting better, and the sky was clearing . . . but then **WHAM** . . . the bottom fell out.

Afterall, when things don't turn out as expected, doesn't that mean that one should make changes? And the sooner the better!

Did you have realistic expectations to begin with?

Investing is all about making money. Earning a reasonable, fair, and balanced return. But investing is also about losing money. You can't have one without the other. That's just not possible. Never has been and never will be.

This observation is just so "real world."

Consider the economy, society, politics, and your own career

Each of these is about success, progress, advancement, and betterment. But they are also equally about failure, missteps, and occasional decline. We can't have one without the other, success and failure are two sides of the same coin. Consider the healthy, growing, thriving forest. It exists in close harmony with forest fires and windstorms, it needs them. Today's investment markets face both "*forest fires*" and "*windstorms*" simultaneously, taking the form of:

- Investment loses, large, growing, and beginning to affect investor behavior, both retail and institutional
- Ever more disturbing headline news
- High inflation, that's coming down only very slowly
- Rapidly rising interest rates

But does this mean that we should change what we're doing?

What you'll hear, or already have been hearing

What you'll inevitably hear from the investment industry, financial advisors, investment pundits, and the carnival barkers falls into one of two buckets:

> **98% of the time** - Just hold tight, exercise patience, stick with it, buck up, show a stiff upper lip, and just ride out the declines, no matter how severe.

2% of the time - The world is ending. Fortunately, there are incredible and unbelievable (once in a lifetime) opportunities available today. But sadly, 90% of the folk will miss out on these unique opportunities and end up losing their savings. But if you listen carefully, you'll be one of the few who win incredibly big.

Ignore the 2%, ignore the carnival barkers. They're just trying to separate you from your money (and doing so with far too much success) . . . ignore the crazy talk and the too-good-to-be-true stories . . . ignore the get-rich-quick come-ons.

The other 98%, the "*hold tight folk*." They're right almost all of the time. But they also fail and fail miserably at the rare and infrequent inflection points. And these inflection points do come along. The *hold-tighters* fall into the trap of believing that the future will be like the past (which is true most of the time). The *hold-tighters* inevitably fail because they make decisions based on the *presumption* that the next 75 years will be like the last 75 years . . . and that just ain't so . . . that's not how history has unfolded.

The United States and every other country have always had inflection points . . . when things work differently, serving to change the opportunities and the risks. Let's be frank, the opportunities and risks in 2025 will be so different from those in 1980, or 1935, or 1890, or 1845 . . . we experience profound change with respect to both risk and return. Consider some simple data from the past, identifying just how radically different one period can be from the next.

Date (as of Dec 31st of)	**10-year US Treasury yield**	**Year-over-year inflation** (CPI)	**Real interest rate** (10-year yield minus yoy CPI)	**Unemployment** (civilian rate)	**GDP growth** (yoy change)	**Population growth** (yoy change)	**Standard of living** (GDP per capita, yoy change)
2021	1.5%	7.0%	-5.5%	3.7%	5.5%	0.6%	4.9%
1985	9.0	3.8	5.2	6.7	5.6	0.9	4.6
1949	1.8	-2.1	3.9	6.0	3.9	1.7	2.1

So, do you need to change anything?

You've experienced significant loses in your portfolio. I have too. You're pained by the ever-worsening headline news. So am I. But are these valid reasons for changing your portfolio? Absolutely not! Not a chance!

Ask yourself a very different and more relevant question. Will the future be like the past? Will the next ten to twenty years offer up the same set of opportunities and risks that we experienced in the prior ten/twenty years? Are there forces at play that are likely to deliver a different journey going forward . . . **not a worse one** . . . just one with different opportunities and different risks? Are there reasonable reasons to think that we're at one of those generational inflection points? To promote this argument, consider the "*whale's mouth*." The whale's mouth highlights the herculean gap that's opened up between US economic growth (declining) and stock/bond valuations (getting ever more expensive). The whale's mouth shows how we've experienced extreme asset price inflation while simultaneously experiencing a profound decline in the growth rate of our economy.

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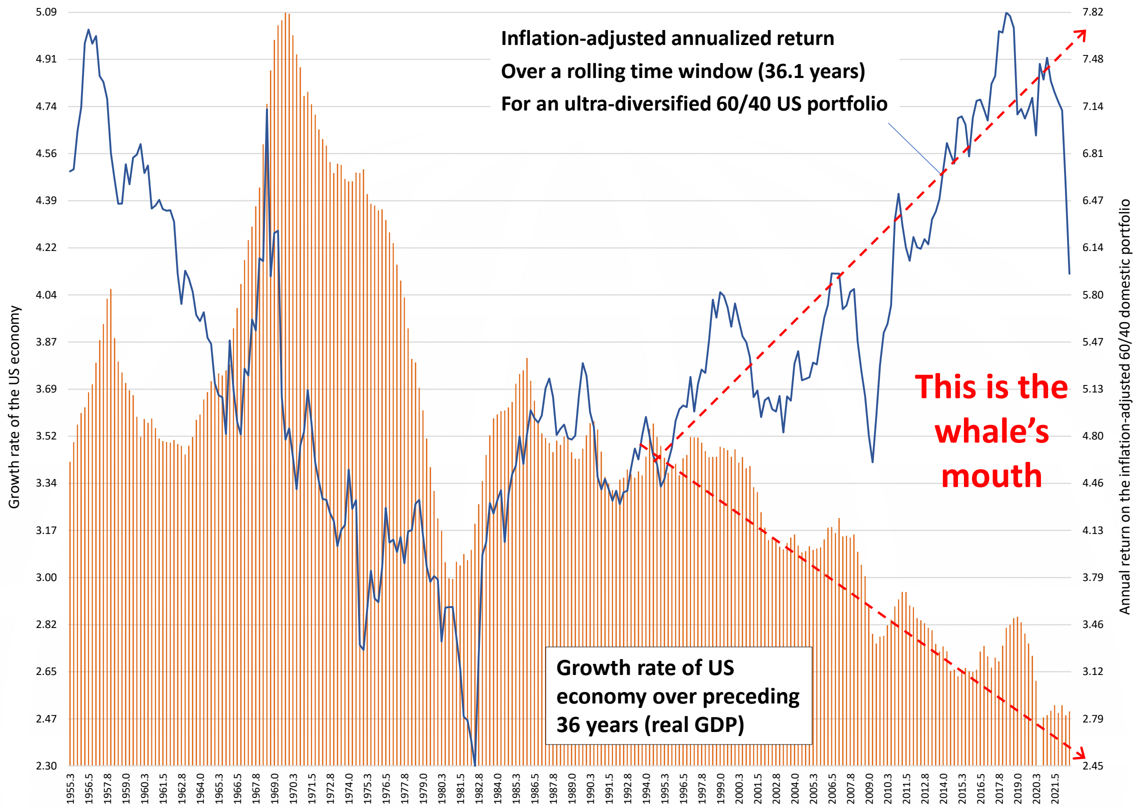

Maybe this means that we're at an inflection point. One where the opportunities and risks will be every bit as abundant in the future as in the past . . . but where they'll be different. If so, then maybe it's time to explore an investment approach that's inherently more adaptive and more strongly aligned with a changing future.

Bottom line

Disappointing portfolio returns and horrific headline news are not valid reasons for making changes to your portfolio . . . or mine. But a recognition that we're at one of those rare inflection points is. Your financial advisor has a menu of possible investment solutions that are directly relevant to the issues discussed 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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The "ultra-diversified 60/40 US portfolio" is defined as 42.75% S&P 500 Index, 14.25% Dow Jones Industrials Average Index, 9.5% Dow Jones Investment Grade Corporate Bond Index, 9.5% Moody's AAA long-term corporate bond index, 9.025% 5-year US Treasury bonds, 9.025% 1-year US Treasury bonds, 2.5% Diversified commodities, 2.5% gold bullion, and 0.95% 90-day US Treasury bills. With monthly rebalancing.

All data was provided by Global Financial Data, Inc. on September 26, 2022.

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