February 2019

On February 23, 2009, we started a six-week communication program with clients. In the first piece, we highlighted five points we wanted to make to clients with the commitment of a follow-on piece for each of the points. A review of the five points we made at that time is the topic of this month's Paradigm.

The S&P 500 closed at 735 on February 23, 2009. This was down from 1,562 on October 8, 2007, and a far cry from current levels around 2,700. What follows is a section on each of the five points, what we were thinking in early 2009, and how they might be relevant over the next ten years.

The World Is Not Ending

"Expansions and recessions and booms and busts are part of the economic cycle. For the U.S., this is the eleventh post-World War II recession.... This recession will be worse than average."

The Great Recession was one of the worst economic times since the Depression. 2009 was the first year in 50 years that world GDP declined. The S&P 500 bottomed out March 2009 at a level 55% below its 2007 peak.

It also turned out that for many indicators, but not all, 2009 was the low point. Yes, late 2008 and early 2009 were scary times, but "if you believe in future global growth (more people producing and consuming more goods and services), which we do, then you should believe in investing in global debt and equity markets."

The next recession will be different, but economic growth and asset returns ten years on from the Great Recession should provide some comfort to investors.

Time Horizons Are Key

"If your objective is immediate protection, your only choice is cash. ... For others, this is a bump, though a major one, in the road."

The preceding may appear a bit trite, but we believe it is not. We structure portfolios to have cash reserves and cash flow so you can think long term instead of reacting short term. Staying focused on the long term is not easy but it is a solid way to manage your financial affairs.

The Current Situation Creates Buying Opportunities

"Short term, the distressed economy is having a negative

impact on us all, but long term, great opportunities are being created."

This was not a "bet the ranch" suggestion. Rather, it encouraged investors both to rebalance their portfolios through buying some equities and to encourage investors not to flinch and sell their equities. Even at extreme points in the stock market, changes of 10% (for example, increasing equities from 50% back to 60% because of the market decline) are productive and prudent.

Don't Toss Diversification Out The Window

"Proper asset mixes going forward are likely to be different than the past, but the validity of diversification will remain."

Diversification had several major benefits in the past decade. During 2008, the S&P 500 was down 37% while many diversified portfolios were down 20%. Not great, but a major plus both financially and psychologically. Also, diversified portfolios recovered to their pre-2008 values quicker than all stock portfolios.

A disappointment of the past decade has been the drag that international equities have had on diversified portfolio returns. For example, for the ten-year period ending January 31, 2019, the S&P 500 returned 15% annually while the MSCI EAFE (the major foreign stock index) returned 8% annually. Even with the above variation of stock returns, a diversified portfolio performed better than one where stocks were sold in 2009 and the portfolio over the past decade was all bonds.

Governments Around The World Are Responding

"The visible hand of governments around the world is with us and will be very visible for another one to two years." The latter part of the preceding statement (one to two years) has done the worst of almost anything we wrote in 2009 for standing the test of time.

Some would view the above as a negative. We view it as a reason to highlight the other four statements, especially believing in global growth, keeping your time horizons long, and remaining diversified.

We by no means got everything right 10 years ago. However, believing in the global economy, staying focused on the long-term, and remaining diversified did provide perspective and guidance.

The information above is compiled from various news and research sources, The above information is from sources believed to be reliable, but accuracy is not guaranteed. The above is not investment advice and should not be acted upon without first consulting your Investment Advisor, and/or CPA and/or Attorney to determine the specific impact to your situation.