# *Planning for Fear & Greed*

January 2017

*"The nicest thing about* not *planning is that failure comes as a complete surprise, rather than being preceded by a period of worry and depression."*
*- Sir John Harvey*

One year ago, we discussed how courage is found not in the absence of fear, but rather in the resistance and mastery of fear. At the time, the world seemed to be looking at the glass as half empty rather than half full. We speculated this pessimism was misplaced if it was just due to the stock market; from November of 2015 to the middle of January 2016, the S&P 500 lost over 200 points. Our suggestion was to ignore the short-term noise and remind yourself that there is always an optimistic point of view that can counter a pessimistic tone; it really comes down to perspective. We also pointed out that none of the "overs" (confidence, spending or borrowing) that can cause a recession seemed to be at work back then. Today, we may be dealing with the flip side of the coin, in that there seems to be a good deal of optimism in the markets and the economy.

To reinforce the perception that the glass is half full now, in full contrast to the situation twelve months ago, the S&P 500 has gone up almost 200 points over the last 3 months (as always, please remember that the S&P 500 only represents one of many different "markets", in this case just large capitalization United States stocks). Yet our recommendation is the same as last year: ignore the short-term noise, and don't forget the potential downside (pessimism) if you're currently only seeing the upside (optimism). You see, regardless of whether or when you are an optimist or pessimist, failure typically comes when there is a lack of planning, and the emotions of fear and greed, as well as worry and depression, should never control your decision-making.

As for the current situation, we do see many positives in the economy, which will hopefully translate into future stock market gains. A focus on American industry may bring about increased prosperity and a continuation of this slow growth economy (I, for one, like a slow growth economy that is neither getting too hot/exuberant nor slowing down). The fact that banks and non-bank financial institutions seem more willing to lend money these days to small businesses and others should also help continue to propel employment and wage growth. Further, lower corporate income taxes and a tax holiday allowing for repatriation of foreign held dollars, both of which have bipartisan support, could bring substantial investment into our economy.

As for downside risks (last year I had to remind people of the upside potential), we do worry about a few "frothy" parts of the economy, including real estate. In fact, we believe we're in the midst of another real estate bubble - one that's being inflated for different reasons than ten years ago, and probably will not pop for another one to five years, but something that's concerning nonetheless. To make this point in an overly simplistic way, does it not seem like everyone and every television station is once again enthralled with buying and/or flipping real estate? As for bubbles – or another "over", if you will – we are also seriously concerned with the continuing increase in student debt. Wynne and I are witnessing this first hand as we get ready to send our first born off to college and are being offered loads of "financial aid" (which is another term for debt) as long as we simply have a heart beat it seems. Currently, the New York Federal Reserve says there is almost $1.3 Trillion(!) in total U.S. student loan debt held by over 44 million Americans with an approximate 11% delinquency rate; these numbers should concern every U.S. taxpayer since governmental loan forgiveness/reduction/abatement/subsidy must necessarily come out of our, the taxpayers, pocket.

And if I haven't depressed you enough (remember, I'm just offering a counter-argument to the potential current optimism), let's talk about Medicare, Medicaid and Social Security. Who in their right mind actually thinks that these programs can continue in their current form while the Baby Boomers retire in droves? I fear there is only one of two solutions: that everyone takes some sort of haircut now and in the future, or we continue on a path that I jokingly – but very seriously – call the generational-bamboozle, where our children will inherit the sins or omissions of older generations. Last, but not least, I would be remiss if I didn't mention the fact that we are in the midst of a political shift unlike we have ever seen; the partisanship of our populace and politicians has created an atmosphere that seems to make compromise untenable and almost despised by extremists of either party – which can't be helpful to a democracy that depends on cooperation and compromise.

So, as I asked last year, what is one to do? Again, the answer is no different: use time and research-tested principles of financial planning and asset management to, paraphrasing last year's January newsletter, plan for the good times and bad, knowing that misplaced optimism or pessimism can cause you to miss out on successful experiences. And though a lack of planning may help avoid some of the inevitable worry and depression that life brings, emotions can be managed with perspective, and life's surprises should come from personal experiences and not the failure to plan.

As always, please email or call with any questions, and thanks so much for your trust, your friendship, and your referrals!

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