Timeless Investing Lessons From the Past

February 2022

"Taking something from one man and making it worse is plagiarism." – George Moore

Welcome to 2022, where things seem to be getting back to normal! Why do I say this when most people think that everything is falling apart now? Don't we have inflation flashing red? Did bonds actually lose value while interest rates went up? Hasn't the stock market taken a hit in the first six weeks of the year? And isn't Russia about to invade another country? Well, yes, yes, yes, and yes. But that's exactly why I am saying things are getting back to normal.

Let's start with inflation. We've been lulled into a false sense of non-inflationary security for the last thirty years as interest rates trended down all that time. Yet inflation has always been with us for over a hundred years, whether in the hidden form of less product for the same amount of money, or the more direct approach of slowly appreciating prices. Fortunately or unfortunately, our pandemic response turbo-charged rates lower, but that, plus massive monetary and fiscal stimulation, helped conjure hot inflation (at least in the short term). Though we may not like the consequence, it seems perfectly rational to me.

Borrowing, or plagiarizing, from an historical perspective, it's been said that "we have been given plenty of reasons to expect a continued increase in future inflation. Be it the higher year-over-year gasoline price increase of about 32%, the massive federal deficit, or the monetary stimulus provided by the Federal Reserve over the past few years – either way the consumer has little reason to rely upon historical averages of the Consumer Price Index." (1)

Please also remember that we have long known that when interest rates rise bonds tend to go down in value, which is why we advocate that any near-term portfolio distribution requirements are satisfied through cash, cash equivalents, and/or short-term fixed income (all of which tend to react less to rate increases). Longer term fixed income should be diversified and held for, well, a longer term – such that you have no reason to turn unrealized losses into realized losses.

As for volatility in the markets, we will use another historical reference, where it was said that "when buying a security such as a stock or bond, there is an assumption of risk that you must be willing to accept if you hope to reap the potential rewards of the capital markets. So, when getting involved with the markets, you are essentially making a conscious (hopefully) decision that the potential reward of the capital markets is more important than the assumption of risk." "You see, volatility in the markets tends to be the norm rather than the exception." Thus, "the relative lack of volatility in the stock market during the [last 2 years has been] more distressing than soothing to us.

Which is why, during [that time], we counseled many clients that it was possible the public was being lulled into a false sense of security, and that any ill-placed complacency could startle people once the typical volatility returned to the markets." (2)

Such is the case now; we are finally getting a reset of valuations due to lower stock market levels, a return to normalcy with added volatility, and hopefully a corresponding resetting of people's expectations. In any event, our advice on equities remains the same (for the last 25 years): make sure you have a globally diversified portfolio that is not reliant on any one company, sector, or country; and do not own stocks unless you can financially and emotionally devote at least ten years to holding them.

Last but not least let's discuss Russia. Well, let's make this short and simple – when hasn't Russia been a problem? If they invade Ukraine, then things will be thrown in disarray; but like it or not the world will move on, and we will deal with it as we did when they caused other problems, such as annexing (nice word for invading) Crimea, etc, etc. I am not saying Russia is not a problem, and I am not saying what Russia does is ok – I'm just saying that Russia is a known problem and that we will find a way to live with them either way.

I want to end this newsletter with a final historical reference from my June 2007 newsletter. Back then, as now, I advocated that fear and greed can cause more harm than anything else, and after having proactively planned then sometimes the best thing to do is to ignore the short-term noise and *not* do anything. As I said back then, our job "is to create a plan that is meant to succeed in good times and bad, remain focused on your long-term success, and proactively adjust course at times - so that at other times, we can agree that the best course of action may be no action at all."

As always, please call or email if you have any questions, or even if you just want to talk about the current state of affairs. Although we've been here before, no one ever said investing is easy when it comes to keeping your emotions out of your finances, so we're happy to be here for you.

Thank you for friendship and trust, thank you for your referrals, and Happy Valentine's Day!

R. Timothy Curran, JD, CFP®

tcurran@lpl.com Direct 704.499-9703