



The Unknown and Unknowable

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“History doesn’t repeat itself, but it often rhymes.” - Mark Twain

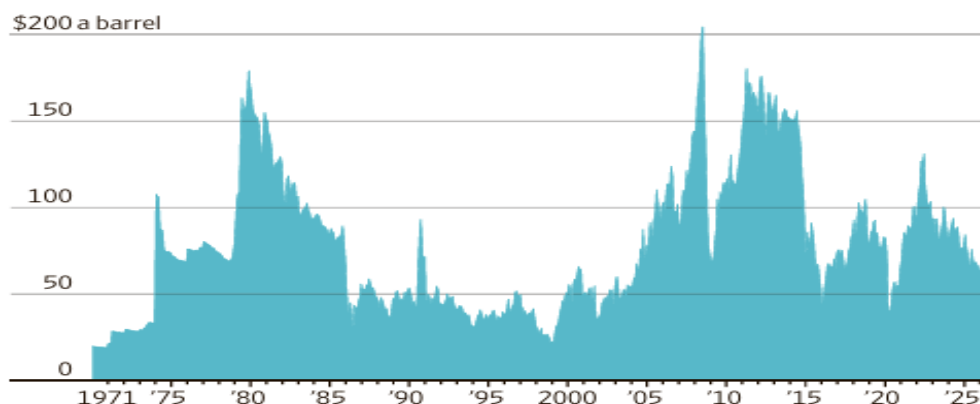
I have used the quote from Mark Twain more times than I can count – which makes sense if history closely resembles today and days to come. Unfortunately, that repetition also means that we always seem to be climbing a wall of worry in the markets, moving from one domestic or international crisis to another. Yet the lessons learned from those days are soon forgotten by most people, and they worry anew when another crisis erupts. Please do not misunderstand me here, I am not downplaying the seriousness of the current wars being waged in several different nations, more than one of which has required the U.S.’s involvement, but the fact remains that history is replete with similar issues.

In no particular order, the last 30 years has included the Long-Term Capital Management collapse, the Asian Contagion financial crisis, 9/11 and the Afghanistan invasion, the Iraq War, the Tech Crash, the Great Recession, the Madoff Ponzi Scheme, the Lehman Brothers bankruptcy, the Covid Pandemic, etc. We have survived as a nation, and an economy, many disasters that at the time seemed like no other. However, although I do not completely subscribe to the “this time it’s different” theme that too many pessimists use to justify the end of their world, I do agree these days are different – because it’s always different. The crisis is not the same, but the fear and anxiety is similar; history is always rhyming.

Why so philosophical? Well, because once again we are living in very uncertain times. And the arguable difference these days is that we have an incredibly polarized political situation, which necessarily comes from a polarized constituency. For instance, Congress cannot seem to agree on anything, which explains the run-away deficit and massive spending that we can ill afford; as I like to say, it’s simple math, and if you collect too little and spend too much then the math will cause problems sooner or later. The potential implosion of Medicare, Medicaid and Social Security in less than ten years is but one example.

As for the high price of gas and inflation, it’s most likely here to stay for the foreseeable future, but we’ve been here before under different circumstances (see the chart below; sources: FactSet, LSEG).

Brent crude-oil futures price adjusted for inflation*



Speaking of history, I'm going to steal a few sentences from myself to prove history does in fact rhyme. Years ago, when writing about inflation and fixed income markets, I said, "[a]s for fixed income, we expect rates to rise in time. Although we do believe [the Federal Reserve chairman] has leeway to keep policy extremely accommodative in the short term, we expect him to begin to raise rates due to external factors that are now beyond even his complete control, such as the weak dollar." When writing about the stock market that may have been overheated, I said, "If I am right that the markets are a bit overheated, then I also know that they tend to move to extremes and thus could be carried higher before any needed correction or time-out. As for specific steps, I have been recommending some profits be taken (not total positions) from some assets that may have given us a three-year return in nine months or less."

Back then I also wrote that the "need to create a portfolio that has flexibility and potential hedges in most any market is now more important than ever", and "uncertainty will eventually be answered more by actual results than the expectations of those results." Thus, "the smart move is to not place too big a bet on any one asset." Instead, "you should [create and maintain] a portfolio that is tailored to your particular goals and not mold it due to the changes within the markets. More importantly, do not let your emotions make you susceptible to those (industry or media) sales pitches that seem to address your current fears, much less take into account several different potential outcomes with the economy and/or the markets."

All the quotes above come from our February 2004 newsletter. Ironically, in that same newsletter I also wrote about why I quit UBS Financial the previous year and became an independent financial advisor because "the large wirehouse firms considered me an employee of theirs, and you a conduit to sell financial advice or products." "This completely rubbed against the grain for me since I felt, and always will feel, that I answer only to you, the client." And I reminded people that "although the paperwork can be a nuisance, I believe any amount of hassle is worth my becoming as objective as possible for your benefit." Similar reasoning is why we had to make a change in the last month; to be fair, it may also explain why we have not made a similar change in the last 23 years (we knew it could be a hassle for us and our clients even though someone told me the average advisor makes such a transition every 10 years or so). But we have never cared about averages - if we need to do what is right for our clients, then we will do it.

Thank you, as always, for your friendship and for your trust. And though history may rhyme, please know that we well remember the lessons of the past and thus we will always plan for the unexpected as the future is absolutely unknown and unknowable.

Have a great start to Spring and please email or call with any questions. Take care!

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