Client's Corner

Don't Just Do Something: Stand There

DANIEL KAHNEMAN, THE FIRST-EVER PSYCHOLOGIST TO WIN the Nobel Prize in Economics—yes, you read that right—once said, ***"All of us would be better investors if we just made fewer decisions."***

He was alluding, of course, to our powerfully instinctive drive to change our investments in reaction to some real or imagined "crisis" in the economy and the markets—and these days, in public health ("Virus cases spike!"). The key word in the foregoing sentence is, of course, **"reaction."**

If you're **acting** on your long-term plan to accumulate enough capital to fund a dignified and independent retirement—which essentially just means that you're adding money to your portfolio whenever you can—chances are overwhelmingly good that you're doing the right thing.

Likewise, if you're retired, and you're continuously **acting** on a long-term plan of withdrawing far less than mainstream equities' long-term historic compound return of about 10% annually—again, the odds that you're doing the right thing are very good.

But if (heaven forbid) you **react** to a "crisis"—most recently the now-you-see-it-now-you-don't 33-day COVID bear market of February/March—you may very well end up doing damage to an intelligent long-term plan/portfolio that you won't be able to repair. And as, in the long run, each insoluble "crisis" turns out to be some or another species of blip, you're at risk of regretting your **reaction** for the rest of your life.

That is, I think, the essential message of Dr. Kahneman's dictum. In two words: **don't react**.

Then again, there are many other kinds of unnecessary and ultimately regrettable decisions in investing, one of which isn't **reacting** to a "crisis" at all, ***but anticipating it.*** Quadrennially, this anticipation takes the form of "If so-and-so gets elected/reelected, the economy will go to hell in a handbasket, and the equity market will tank. I will therefore exit my exquisitely crafted equity retirement portfolio, and just wait to see how things turn out." History suggests that whoever wins the election, you'll regret this anticipatory decision sooner than later.

Look: half a year after we were enveloped in the coronavirus crisis—when the economy went into cardiac arrest and the equity market went down by a third and came almost all the way back as quickly—we're all exhausted. With a resurgence of the virus in many states, we're a whole country that doesn't even know when our kids are going to be allowed back in school, and there doesn't appear to be any clarity in sight. That's terribly wearing on all of us. And we start thinking that if we could just secure one less thing to worry about, it might make us feel better.

There are indeed a lot of healthy actions we could take in the month between now and Labor Day that might make us feel better, and help our loved ones feel better. Unfortunately, making big portfolio changes is probably not one of them. Think about all those people who liquidated their equity investments around the very aptly named April Fools' Day. They legitimately wished for one less thing to worry about too. Think they're still feeling better? I don't.

Of course, there is one wonderful exception to the do-nothing rule, and that's if you're holding significant amounts of cash which are intended for long-term equity investment "when things settle down." The longer your investing time horizon—a two-person, three-decade retirement, for example—the more you may want to rethink this. One notes the following:

- We're a very long way from being out of the woods regarding the pandemic, but the catastrophic toll it took on the elderly infirm—and the way that situation was made worse at first by crowding those patients into nursing homes—seems unlikely to be repeated. Treatments are improving; progress toward a vaccine—indeed, possibly a number of vaccines—appears to be moving rapidly.
- The second quarter of 2020 almost certainly saw the largest quarterly contraction in GDP, and the biggest drop in corporate earnings, since the Great Depression, if not ever. But since then many key economic indicators—perhaps most notably retail sales—have turned sharply positive.
- And the equity market is holding or even adding to the gains it made in the S&P 500's best 50 days ever, coming off the panic low of March 23—four months and more ago.

These three trends may yet turn out to be false positives. But if they don't—that is, if they continue and even gather momentum—the opportunity cost of holding cash may be rising. This is ***the*** conversation I'd urge you to have with your financial advisor this month.

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