A December to Remember

2018 was possibly the strangest year I’ve experienced in my career as a Financial Advisor. On one hand, it was one of the truly great years in the history of the American economy and by far the best one since the global financial crisis of 10 years ago. On the other hand, however, it was also a year in which the equity market could not get out of its own way — not the first time that the stock market and economy have been briefly but bafflingly disconnected.

It is important to cite all the major metrics of the economy which blazed ahead in 2018:
• Worker productivity, which is the long-run key to economic growth and a higher standard of living, surged.
• Wage growth accelerated in response to a rapidly falling unemployment rate.
• Household net worth rose above $100 trillion for the first time, yet household debt relative to net worth remained historically low. (Source: Economic Census Bureau)

Finally — and to me this sums up the entire remarkable year — for the first time in American history, the number of open job listings exceeded the number of persons unemployed. (Source: Economic Census Bureau)

And yet, the equity market had other things on its mind. Having gone straight up without a correction throughout 2017, the S&P 500 came roaring into 2018 — probably somewhat ahead of itself, as it seemed to be discounting the entire future effect of corporate tax cuts in one gulp. There ensued in February a 10% correction, followed by several months of consolidation. The advance resumed as summer waned, with the index reaching a new all-time high in late September. It then went into a savage decline, falling to the threshold of bear market territory: S&P 2,351 on Christmas Eve, off 19.8% from the September high (Source: S&P). A rally in the last week of trading carried it back up, but that still represented a decline on the year. 2018 thus became the tenth year of the last 39 (beginning with 1980) in which the index closed lower than where it began. At the long-term historical rate of one down year in four, that’s actually just par for the course.

But par for the course wasn’t exactly the reaction of the average American investor. Data shows that fear and panic reached levels not seen since the Great Recession, with record amounts of selling in equity mutual funds and ETFs. In times like this, I like to reflect on the fragility of the human emotional system. In moments of extreme fear, our fight-or-flight response is triggered. Like the caveman hearing a rustling in the bushes, we don’t know if we’re about to be eaten by a lion or if it’s just the wind passing. This same adrenaline rush is triggered in our brains when we see our investment portfolios declining by thousands of dollars every hour. And making a bad emotional decision during a time like this can trigger lifelong negative consequences. ▶
Adding fuel to the fire is the relentless negative storm from the mainstream financial media. Sticking to your financial plan during a time of extreme fear is extremely difficult. “Staying the course” isn’t just countercultural; it’s counterintuitive.

2019 New Year’s Action Plan

This is the time of year when the popular thing to do is make your “New Year’s resolutions” — short-term wishes for a better future that are all but forgotten by spring. Gym memberships skyrocket along with fad dieting and weight-loss supplement sales. I’m all for self-improvement, but I’d like to see it done in a way that creates permanent change. In my experience, this requires a deep philosophical commitment and specific actions that are narrowly focused on activities. Rather than “lose weight” as a goal, for example, I find something like “go to the gym four days a week and eat less than 1800 calories a day” to be much more effective.

I’ve listed below some practical things that we can all do, in my opinion, to become better with money in 2019.

1. GET CLEAR ON WHY YOU’RE INVESTING — see the Summer 2018 Miller Time on creating a financial mission statement. This creates commitment to the plan you’ve put in place so that you aren’t taken off course during tough times. In 2019, plan to revisit your “why,” discuss it with your family and commit it to writing.

2. CONSIDER DELETING THE STOCKS APP — Okay, this is a simple one we can all do within the next 30 seconds. Technology has caused too much short-term thinking. Looking at this app only causes anxiety, especially the news section of the app, which is designed to grab your attention by purposely featuring the most negative headlines.

Take out your phone, hold down on the Stocks app until it wiggles, then click the “X.” You’ll feel better immediately. You’re now saying, “I no longer concern myself with erratic short-term market events. I think and act like a long-term investor.”

3. STOP READING “MARKET COMMENTARY/FORECASTS” — I can’t think of anything more distracting to a patient, goal-focused family than reading a market forecast. And there will be plenty of them going around this time of year. My overall philosophy of investment advice is goal-focused and planning-driven, as sharply distinguished from an approach that is market-focused and current events-driven. Every successful investor I’ve ever known was acting continuously on a plan; failed investors, in my experience, get that way by reacting to current events in the economy and the markets.

4. STOP BEING A CHEERLEADER — Okay, I admit I struggle here. If your investment portfolio is valued at $900,000, you might be saying to yourself, “Gee, I’ll feel real good when this account gets to $1,000,000.” And then you find yourself cheering when your account value rises, only to be disappointed when it declines. This cheering process only sets you up for frustration. Let’s treat our portfolios more like trees growing in the yard, not our favorite football team.

5. ADD SOME REALISM TO YOUR EXPECTATIONS — We can’t possibly know exactly how our long-term investments will perform this year, but we do have some idea of what the market has provided over the last century. The long term return is about 11% per year. At the same time, the average annual “correction” is about 15% per year (Source: S&P). To make this clearer, if you start the year with a $1,000,000 portfolio, you may see your account decline by some $150,000 during the year, only to rebound and finish somewhere around $1,100,000. Getting a better feel for these long-term averages ought to provide some perspective around what realistic expectations should look like.

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