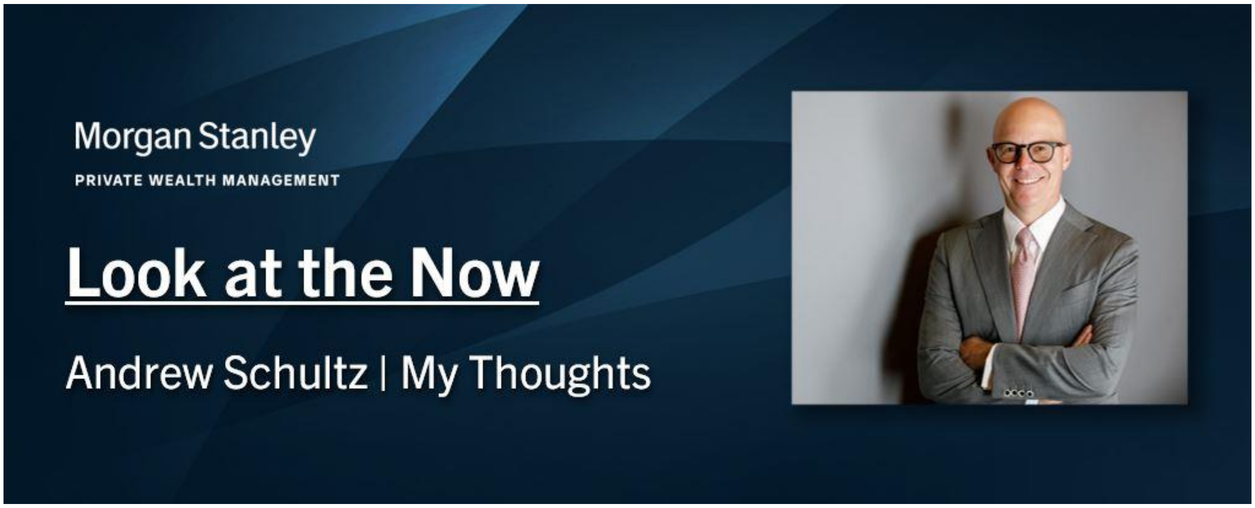

Can you predict the future?

Please ask yourself this question. For most of us, that are honest with ourselves, the answer is “no, unless we are very lucky.” Given that most rational people feel this way, it defies my comprehension how so many, in my opinion, use their predictions of the future to make their investment decisions and do so with such conviction. I am often baffled when someone tells me in what direction interest rates are headed or what an individual stock's value is going to be in the future and then puts real money behind their soothsaying.

I have been doing this now for 32 years. I can for sure tell you that I have no ability to ever predict with any precision where interest rates are going to be in the future, and I most certainly have no ability to peg what the value of a stock or a stock index will be at a certain future date. Thus, I never allow future predictions to dictate my investment decisions.

I feel a much better and smarter way to invest is to “look at the now.” If it has happened already, then it is a fact, not a guess. Based on facts, I believe we have a much better chance to look at potential risks and opportunities, which will help guide us as to where to invest the next incremental dollar.

Let me give you an example. As of today’s writing, we know what we can get paid in a savings account, and we know what we can get paid from long-term bond yields. We know that for both, yields generally are currently higher than what they were a year ago. We know this because these yields exist now. If we have $2 to invest, one could invest $1 in their savings account, and one could invest $1 in long-term bonds. In other words, for cash earmarked for fixed income, one could keep ½ the money liquid and short term and ½ the money invested and long term, knowing that “in the now” both are paying well. If short-term rates go up more, then cash could pay more. If long term rates go down, then long term bonds could go up in value barring other issues. Both should continue to have cash-flow. This is an example, not a recommendation, of a type of strategy that looks at the now and predicts nothing in the future.

One can apply similar types of thinking to other asset classes as well. If we use current economic facts, we are typically going to make better decisions than if we use predictions of the future to make our investments.

In my opinion, a well-diversified portfolio across multiple different asset classes that is designed to weather whatever curve balls are thrown at it should have a better chance of holding up over time than a portfolio that makes bets and concentrations based on future predictions.

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