

Morgan Stanley

PRIVATE WEALTH MANAGEMENT

Andrew Schultz | My Thoughts Change is Always the Hardest Thing

Will the next ten years look like the last ten years? I believe most stock investors, as it pertains to the stock market, would hope that this may happen, and let's face it, anything is possible. My thoughts are that if this is to be the case, then we may need a similarly accommodative central bank and may need similar low inflation rates like what we have had in the past decade. What if the central bank is not accommodative going forward? What if we have a much higher prolonged inflation rate than we have had in the last decade?

Unfortunately, many investors today were either not investing or do not remember the last time we had a prolonged period of an unaccommodating central bank and/or a prolonged period of high inflation. Again, what if that happens now? Does buying on dips work like it has in the past 10 years? Will stock index averages have similar types of returns as they had in the past 10 years? Does a mostly stock portfolio make sense in this kind of environment?

I am throwing these questions out there because, in my opinion, I feel too many people recently think they are incredible stock investors instead of realizing that maybe much of their recent investment successes may have happened because of an amazing bull market and not their expert timing or stock investment picking prowess. Unfortunately, I believe that many that have benefited from the incredible bull market over the past decade have not diversified enough of their profits into other investments or cash when on top. Many, I believe, may have done nothing when on top and instead added more into stocks on recent dips. That being said, up until now that may have worked. But have things changed? Again, I come back to what was asked in the first paragraph. What if the fed is no longer accommodative and what if we have much prolonged high inflation? Can this affect the future returns of a stock investor's portfolio?

If you are uncomfortable with your current asset allocation, or in fact do not have one, and are just over-concentrated in stocks relative to your risk tolerance, you may want to run some of these questions through your head. I make no predictions of the future, I just like the portfolios I advise on to hopefully be prepared for whatever economic outcomes the future may hold, not just the one that is hoped for.

Is your portfolio prepared for other economic outcomes other than the one you hope for?

Hope may not be the best investment strategy. Working with a qualified investment advisor to help you create a more all-weather portfolio that is in line with your true risk tolerance may be.

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