

Is the Sky really falling? Or is it Chicken Little all over again?

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Michael D. Kresh CFP

Managing Member

Creative Wealth Management LLC.

Since March of 2009 the most common emotion for the small investor has been fear of the stock market. And with good reason: The Dow had at that time dropped to the middle 6,000s after touching 14,000 just 18 months before. The economy was in a tailspin. We were losing millions of jobs a year. The world's financial markets were a mess and we had just sworn in a new President. With small investors crying, "Sell, sell, sell!" you'd think the sky was falling.

Fear is a powerful motivator. For the small investor, it was easy to rationalize putting money in a safe place until the mythical day when things "get better." However, as time passed, he kept waiting in vain for that day when he would take his money out of hiding and let it go to work for him again.

Meanwhile, in the Eurozone, Italy, Spain and Greece kept jumping to the front pages. In the Middle East, the Arab Spring sprung, creating a whole new set of problems as angry mobs toppled dictators.

In our own country strong disagreements about the direction of our nation left us with a government that was more intent on fighting than governing. We read in the papers that if we did not put someone new in the White House, our economy would collapse. We were told that the budget fight and the Sequester would decimate what was left of our economic recovery. A childish dictator in North Korea threw a temper tantrum. And each time the small investor looked he saw that things never got safer so he left his money in the bank where he knew that at least he would not lose any more. Well, four years have passed; it seems just as scary today as it did in March of 2009. Our small investor did not lose any more money (thank goodness). In fact, he earned almost 4% over the last 4 years on his money in the bank. He is getting pissed off when he counts the pennies that his bank is giving him for interest each month.

In the meantime the smart investor kept his head when, to quote Rudyard Kipling, "all about him they were losing theirs." He discovered that, lo and behold, not only did the sky not fall, but his investments in the market more than doubled back to where they were before the panic set in.

I have been in this business for more than 3 decades. If I had spent that time waiting to find the right time to invest I would never have seen it. Recessions, hyperinflation, market crashes, and global economic crises are always in the headlines. Times have changed and the threat of mutual annihilation (which is not really an investment problem—if the world ended you'll find your IRA quickly becomes irrelevant) has been replaced by rogue nations with loads to say and nothing to lose. There always, always seem to be wars in the Middle East, and globalization—both a blessing and a curse—is inevitable. The only thing that we can truly count on is that there will always be a reason to fear the markets, there will never be a best time to invest if noise makes it hard to think and fear is always staring you in the face.

The markets seem to surprise the pundits all the time; no one expected that in this environment the US equity markets would keep rising to new highs. They just don't get it that no one has ever been able to predict the short term direction of the market. I would like to turn on CNBC at 8 am and have them tell us where the market will close (that would be valuable information) rather than listen at 4:15 PM and have all of these "experts" tell me why the market closed where it did. I try to spend my time (for your benefit of course) listening to those of us who are smart enough to know the limits of knowledge (Warren Buffet et al) than to those who are foolish enough to believe they know the unknowable.

MDK