Resource Planning Group
Plan Right. Invest Smart. Live Well.

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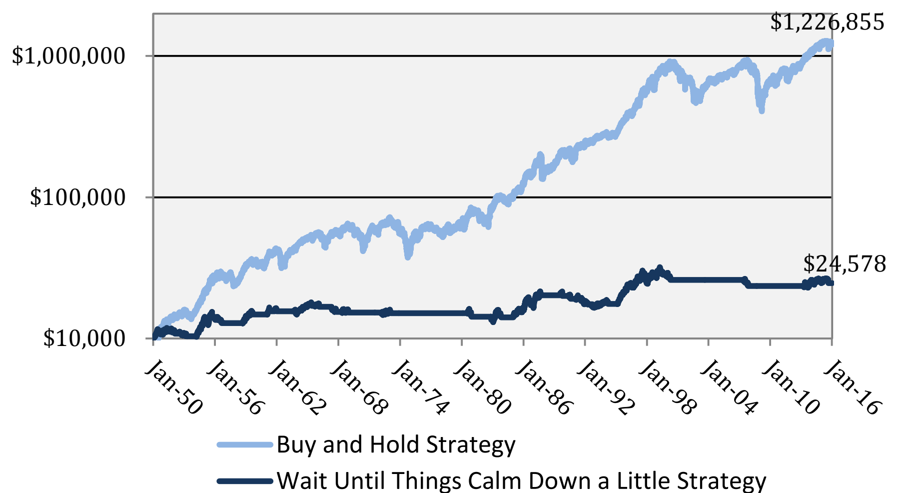
Most investors like the idea of waiting for a period of calm to invest. Our brains tell us it is better to wait until there is clarity and risks have subsided before investing. And our brains have good reason to work this way. For our ancestors, waiting until things calmed down was necessary for survival. This impulse helped avoid being crushed by wooly mammoths or mauled by saber-toothed tigers. The behavioral bias to wait for safety results from millions of years of adaptation.

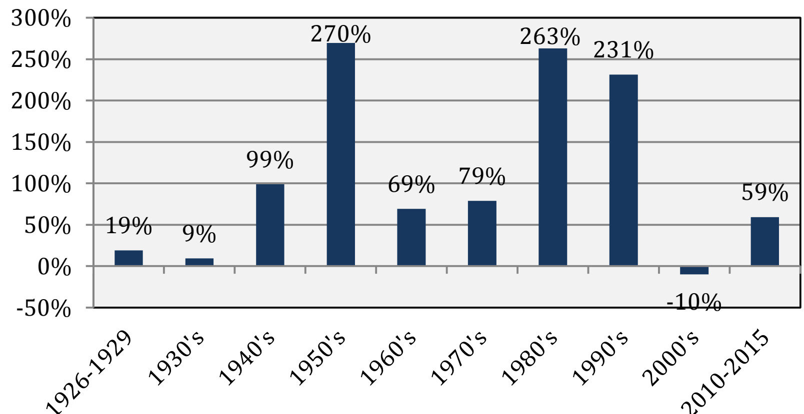
Yet while this bias was useful for the survival of our ancestors, it turns out to be of less use for modern day investing. Actually, it turns out to be quite harmful. Robust empirical evidence suggests that bad investor behavior – selling when things look ugly and buying when they feel good – costs investors somewhere between 4% and 8% per year.

Consider a simple investing strategy where you sell stocks every time there is a 5% loss and wait until things have calmed down before reinvesting. Assume that “calmed down” means that stock prices have recovered back to the level before they were sold. We call this the ‘Wait Until Things Calm Down a Little Strategy’.



Had you taken this approach starting in 1950 and invested $10,000, you would have more than doubled your money during the past 66 years, finishing with over $24,000. Alternatively, had you invested in stocks on January 1st, 1950 and just done nothing, you would have amassed $1,226,855.[i]

Yes, the ride on the buy and hold portfolio would not have prevented all the large drawdowns. It would not have satisfied our behavioral need to do something nor would it have appealed to our overconfident nature that convinces us that we are better than nearly everyone else. What it would have done was make us an additional $1.2 million over the Wait Until Things Calm Down a Little Strategy.



We tested variations of the wait until calm approach and the results were

similar. We also tested the results by decade going back to 1926 to determine if this advantage of the boring buy and hold strategy was largely attributable to one time period[ii]. It turns out that the strategy of buy and hold won in every decade except the 2000-2009 period when it posted a 0.9% annual loss versus a 0.1% annual gain in the wait until calm strategy.

Wait Until Things Calm Down

A research-loving friend recently compiled a list of all the major financial crises since 1800. We truncated his summary below to begin in 1900 and include only the major financial crises (a similar list can be found here) The list below ignores “almost-major” financial crises like the Orange County default in 1994, Icelandic financial crisis of 2008, and US debt downgrade in 2011. It ignores all major health panics like those stemming from Ebola, AIDS, SARS, Swine Flu, Polio, etc. It ignores geopolitical crises such as September 11th, the Cuban Missile Crisis, Arab Spring of 2011, Iranian nuclear threats, Middle East turmoil, and Russian invasions. It ignores disruptive nature-related crises like Katrina or Fukushima, political crises, significant tax policy changes, Y2K, sequestration, elections, government shutdowns, Fed rate tightening, and failed budget deals. It ignores both World Wars, both Iraqi wars, and all global conflicts over the past century.

Panic of 1901	1990-1991 Recession
Panic of 1907	India Economic Crisis (1991)
Depression of 1920-21	Finnish Banking Crisis (1990s)
Great Depression (1929-39)	Swedish Banking Crisis (1990s)
“‘Tronics” Bubble Bursting (1968-70)	1994 Mexican “Tequila Crisis”
Energy Crisis (1973-1975)	1997 Asian Financial Crisis
"Nifty Fifty" Crash (1973-74)	Russian Ruble Crisis (1998)
1980 Recession	Argentine Economic Crisis (1999-2002)
1981-1982 Recession	Dot-Com Bubble & Early 2000s Recession
Japanese Asset Price Bubble (1986-2003)	Great Financial Crisis (2007-09)
Israeli Bank Stock Crisis (1983)	Greek Debt Crisis (2009-present)
Black Monday (1987)	Russian Financial Crisis (2014)
Savings And Loan Crisis (1986-89)	Chinese Stock Market Crash (2015)

If you do some homework and begin to create a comprehensive compilation of all the crises, conflicts, and panics of the past century, you’ll quickly learn that completing the list basically necessitates a full-time research associate. Doing the same compilation for just the past five years will require more than a single sheet of paper. The point is that crises, panics, and risks are a given. Anyone will be hard pressed to find a time period when, at the time, risk and uncertainty did not feel elevated. We kidded that an old colleague would unknowingly initiate nearly every monthly investment committee meeting over an 8-year stretch with the personal sentiment that markets were particularly uncertain or risks seemed unusually high.

There Will Always be Reasons to be Scared

Each quarter, we update an ‘Economic and Capital Markets Scorecard’ like the recent one below. In doing this for over a decade, during both really bad and really strong market environments, there has never been a shortage of reasons for optimism nor a shortage of

reasons for caution. Looking back at our library of updates from just the past five years highlights some since-forgotten concerns like an excess housing inventory of >20 million homes, expiring 2010 tax cuts, sequestration, Affordable Care Act passage, an Ebola scare, uncertain election outcomes, Middle East turmoil, high oil prices (remember when?), Detroit default, Cyprus bank closures, Swiss franc revaluation, >10% unemployment, fiscal cliff, and the list goes on.

We cannot assure that the next crisis will pass without a major market correction. What we can assure is that there will always be threats that provide coherent excuses to be scared or convenient reasons to be in cash. Now is no different. We can also assure that there will always be well-reasoned authorities who have a good explanation for why doom is imminent and investors should be in cash. Now is no different.

As highlighted before, our systematic investment discipline is in place to help us and our clients avoid making behavioral mistakes. That means systematically reducing portfolio risk at times but it also notably means maintaining healthy exposure to stocks in the face of risks. If executed well over a market cycle, the objective is to make our clients the beneficiaries of the long-term transfer of wealth from the impatient (i.e. those who are "waiting for things to calm down a little") to the patient.

Economic and Capital Markets Scorecard

	Reasons for Optimism	Reasons for Caution	Current Balance
Economic Activity	•Strong housing and auto activity •Robust job gains >200k / month •Resilient consumer spending •Reduced gas prices act like tax cut	•Economic slowing in BRICs •Global trade slump led by weak Chinese demand •Weaker manufacturing data	⬌ Modest economic growth, job gains, and positive leading indicators quell recession concerns
Corporate Fundamentals	•Credit market fundamentals strong •Corporate cash near record level •Banks well capitalized	•Profit margins historically high •Limited US profit growth •Strong dollar a challenge for exporters	⬌ Extremely strong balance sheets and cheap credit are positives; offset by sluggish profit growth
Equity Valuation / Sentiment	•Foreign stock valuations very attractive •Average investor under-allocated to equities as a result of negative flow •Fearful sentiment is near-term bull [illegible]	•Equity valuations likely to contract if profit margins squeeze [illegible]	⬌ US equities rich relative to long-term measures but normal in light of low rates; Non-US stocks cheap
Policy	•Europe, Japan, China central banks all pursuing aggressive stimulus •Fed likely to move at gradual pace	•Limited tools to fight deflation •Unknown market reaction to rate hikes •Election uncertainty	⬆ Aggressive monetary stimulus overseas is bullish; Uncertain response to further Fed tightening
Inflation / Rates	•Global banks aggressively easing •Low inflation offers flexibility to Fed	•Global deflationary forces	⬆ Low inflation, low interest rates
Other Factors	•Consumer net worth at peak levels •Improved European consumer sentiment •Still low borrowing costs	•Geopolitical tensions in Middle East, Russia, North Korea •European debt risk still looms •Unwind of China credit bubble	⬇ Lingering European debt risk, uncertainty in China, and ever-present geopolitical risks

Click on picture for expanded view

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We invite you to contact us if you have any questions about your finances or wish to review the health of your financial plan.

With warm regards,

Resource Planning Group

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[i] These strategies use daily prices of the S&P 500 going back to January 1st, 1950, when daily pricing data becomes available. Dividends are not included in the returns which would make the difference even larger since the "Buy and Hold" approach captures all dividends whereas the "Wait Until Things Calm Down" approach would only be invested to capture some dividends.

[ii] Testing by decade uses monthly returns (which go back to 1926) to develop a more robust evaluation. Monthly data also includes dividends.