

IT IS DIFFERENT THIS TIME BUT NOT THE WAY YOU THINK

Peter Mallouk, J.D., MBA, CFP
Chief Investment Officer
www.thinkingbeyond.com

With the current economic turmoil, as in all periods of economic unrest, many financial pundits are quick to point out that it is “different this time.” The implication is that we are in unprecedented times. The markets—whether they be stock, bond, real estate or commodity markets—cannot be expected to do what they have always done before: fully recover.

Of course, there is always an element of truth to the argument. Every crisis is a little different. Looking at recent bear markets, we see four totally distinct causes. The 1987 crash was blamed on stock market control systems. The 2000 bear market was the result of the tech bubble. The late 2001/2002 bear market resulted from a terrorist event, and the recent crisis was the aftermath caused by the real estate bubble. All of these causes are truly different. However, the outcome of every previous crisis, as with every bear market, was a recovery and further economic expansion.

Each crisis, though, seems to be scarier than the one before it. Americans have been more shaken by this crisis than the 9/11 bear market, and the 9/11 bear market was more traumatizing for most people than the tech bubble bear market. This is evidenced by the fact that more investors have fled to cash at the market’s bottom with each successive bear market. While part of this is due to investor fatigue, there is likely more at play. So what is really different?

The marketplace has been changed by the advent of around-the-clock financial news and live, high-speed internet information that is updated by the minute. The business cycle simply moves faster in the information age. During the bear market in the 1970s, Americans could hear a brief update on the evening news or read the paper, full of its day old information. While either medium back then could have had someone claiming that the sky is falling, at least it was not like today with someone screaming through the TV ad nauseam, 24 hours a day, or updating their website with ominous predictions on a non-stop basis.

The sheer volume of information hurled at the average American is far greater than in the past. This is mostly good, but has caused many investors to panic and make critical behavioral mistakes that have led to permanent losses, namely the “I can’t stand it anymore, let’s go to cash” cry of millions of Americans at market bottom in 2009 (while we were buying).

Furthermore, *even though the business cycle continues to do what it has always done, which is cycle and not go straight up*, it is cycling faster. In the 1980s, if you went to a new restaurant that was less than mediocre, you might tell your date that it may not be there in a year. Today, if you go

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to a new restaurant that is substandard, you likely do not expect it to last but a few months. No one thinks all restaurants are going away for good. New restaurants will always sprout up; that is what happens in a capitalist system. But we do realize, even if it is subconsciously, that the cycle is moving a heck of a lot faster—faster than many of us are used to.

Think about communication. We used to send a letter across the country on a horse, and then we came up with a mail system. In the 1960s, a college kid at Yale wrote a paper for an economics class about overnight delivery service. Rumor has it that he got a C, along with a special note from his professor telling him to be realistic. He went on to found Federal Express. Shortly thereafter, the fax machine was invented. While it was brilliant at the time, many of us (at least me) are frustrated with its glacial pace. I struggle not to throw it out the window whenever I hear it connecting. Just when we thought things could not get faster, email came along. A decade later, we have texting, which is so fast it is measured in milliseconds.

In short, we are still communicating, just a lot faster than before. Likewise, advancements in technology and information distribution have resulted in winners and losers (whether they be restaurants or Fortune 100 Corporations) being sorted much faster in the modern capitalist system than even 20 years ago.

So yes, this time is different. It is not different in the sense that the outcome will be different. The markets and economy will ultimately recover from crises, whether they are already happening or will happen in future years. **What is different is the constant noise we hear everywhere and the speed with which the business cycle moves.** Having a heightened sense of awareness to these issues can help an investor get through the next bear market cycle and view it for what the last one was for our clients—a tremendous opportunity, not the end of the world.

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