

Financially Speaking

With Trisha Arndt, CFP®

Prepare for the “New Normal” Economy

We Americans have an amazing way of picking up a sound bite and repeating it so often that it becomes tantamount to the title for an entire era. While such names are often associated with socio-political events (think Vietnam Era or the Roaring ‘20’s) they can also be associated with periods in our economy and investment markets.

I entered the financial services world in the 1990s to cries of the “New Economy”. The world wide web and other advances in technology had so revolutionized the world we live in that it was widely believed that the fundamental economy – and therefore our methodology for valuing investments – had completely changed as well. It seemed like any company that went public with a “.com” behind its name immediately shot up in price and whether a company was actually making money or not had no bearing on what people would pay for its stock.

Eventually that era full of what Alan Greenspan so prophetically called, “irrational exuberance” led to the “dot com bubble” which, like all bubbles, eventually burst. It seemed that the fundamentals of a company really did matter after all.

As those with the power of the sound bite look for a way to describe the decade just past the one that most often gets used, in my field at least, is the “lost decade”. Taken at face value that description seems quite apt – in March of 2000 the S&P 500 Index¹ reached a high of over 1500 and almost 10 years later the same index is only flirting around 1100.

Faced with such evidence and with the memories of two horrific bear markets bookending the decade, I can understand why the lost decade sound bite stuck.

Now the rush is on to try and coin a phrase to describe not only our recent history but also the expectations for the future. And so the phrase “New Normal” has been born. It has been used to describe everything from expectations for unemployment rates to the massive (and increasing) federal deficit to a belief that the stock market is going nowhere for a long time to come.

No matter what is being referred to the general theme seems to be to lower your expectations and get used to this new, less robust economy.

Now the cynic in me immediately takes offense to the idea that we just need to accept a worsening of our economic circumstances. After all, we are America – the home of the most innovative, industrious and entrepreneurial people in the world. There is a reason that this great country, despite being a baby by historical standards, developed so rapidly into the definer of success. We have the freedom to use our talents and generation after generation has done so. There is no reason why we can’t find a way to deal with the current situation with just as much fortitude as past great generations dealt with the trials

of their time – preparing to just roll over and accept the idea that we aren't great anymore is not within my DNA code, nor I would expect that of most of those reading this.

That being said, I do think that there can be an important message found within the murky depths of the “New Normal” rhetoric.

Too often people approach their investment portfolios with unrealistic expectations – expectations that have very little chance of being met even in the most robust of economies. When you make a long term investment in stocks or bonds you don't get to just check a box marked X% a year and sit back to watch the gains roll in. In reality, their returns can vary widely between positive and negative over given periods of time and it is critical that you enter into an investment understanding what the possibilities are. In this world of constant streaming data and instant access to information it is also important to have patience – if you make a long term investment then it really is the long term performance that matters, not what happened during the last week or month or even the last year.

As we approach this new chapter in our history I'd like to think that we do so a little smarter, with realistic expectations for our personal investments but at the same time with a belief in our combined ability to overcome our economic travails. Perhaps we are entering a period of “New Normal” but I for one believe that the new normal can be even better than the past.

¹All Indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S & P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's.

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