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Predicting Financial Events

By admin

Clients often call when markets are looking a bit shaky, or newspaper articles are predicting the next market correction, recession, bubble, etc.

The challenge with reacting to such events or news is that the external circumstances rarely have anything to do with your specific situation and plan. Your mission, should you choose to embrace it, is to build assets through savings and investment returns so that you reach your targeted savings value needed to support your lifestyle and cash flow needs in retirement.

Retirement is that far off land where you envision putting your feet up, sipping a fruity drink on some warm beach - not having a care in the world. And in that wonderful land, it won't be necessary to go to a dreaded "job" to sustain your standard of living. Ahh... that is the life! Or, at least, that is the life many aspire to.

But a big roadblock to getting there is the predictable and somewhat regular events that test one's commitment to sticking to a financial strategy. These roadblocks often arrive in the form of a general economic recession where investment markets often correct 30% on average before, historically speaking, recovering and moving on to new highs over time.

If your confidence is shaken by an economic recession and you miss the recovery, then you risk not achieving your long-term lifetime lifestyle goals through the growth and additional capital that can be acquired during normal economic times. And that is the conundrum!

So, while wise financial advisors will typically remind their clients about their long-term goals and the role of patience, some people nonetheless want to seek safe harbour against perceived short-term risks. As I explained to one client in the spring of 2016 (during a media frenzy about a recession which never happened), their family had been through half a dozen recessions in their sixty years and had nonetheless managed to build a large pension saving program, pay for a beautiful house and send all their children to university. And they were likely to go through two or three more recessions in their lifetimes. So, what were they reacting to?

A proper plan will anticipate recessions and other events (that need to be managed) on the path to financial freedom and success. To make an accurate and actionable prediction about the financial markets, several things need to be known and accounted for.

First, you need to know precisely what will trigger the next financial crisis or recession. Will it be an inventory led recession, or a profits recession or a credit contraction or an interest rate induced event? All these causes have different characteristics and portfolio responses that one can take to prepare for and navigate the expected event.

Secondly, you need to know and accurately predict how deep and severe the recession or event will be. If it is only a 10% correction, then this is easy enough to recover from with an approximate 11% advance. If it is a much larger and deeper correction, then it will take more time and effort to get back to your original position. Preparing for the depth of a correction will include accurately predicting exactly how deep it will be and if any portfolio adjustments are warranted.

Finally, you need to accurately predict the duration of the recession or correction. Will it last three months or nine months or years? Predicting this is difficult in advance and the duration is generally unknowable. A rule of thumb is that most recessions, on average last about 9 months or less, before the foundation is in place to establish a recovery and a new business cycle.

As you can imagine, accurately predicting these three financial recession characteristics is extremely difficult at the best of times and even more difficult when emotions are not kept out of the equation.

When someone lets their gut (or feelings) dictate their investment decisions, then there is no process for knowing when the danger has passed and/or when it is "safe" to reinvest to profit from the expected upswing in the economy and financial markets. There is no plan, only a feeling!

In terms of navigating investment market volatility, the two best wealth-building actions are proper asset allocation during times of economic weakness and being positioned to take advantage of the expected recovery and upswing! And there has always been a recovery throughout history.

Call us today to see if you are positioned correctly [1] for the next phase of the business and economic cycle. Wishing you continued success on your life's journey.

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