THE R WORD

Recession. There, I said it. My voice has joined the sea of noise whose waves are lapping up on the shores of your mind. It's hurricane season and those opining on an economic reversal are approaching a level four storm. The signs are there, we are told. "The yield curve has inverted!" we hear proclaimed in a shrill voice. "This is always a predictor of a recession!," we hear.

NOW WHAT?

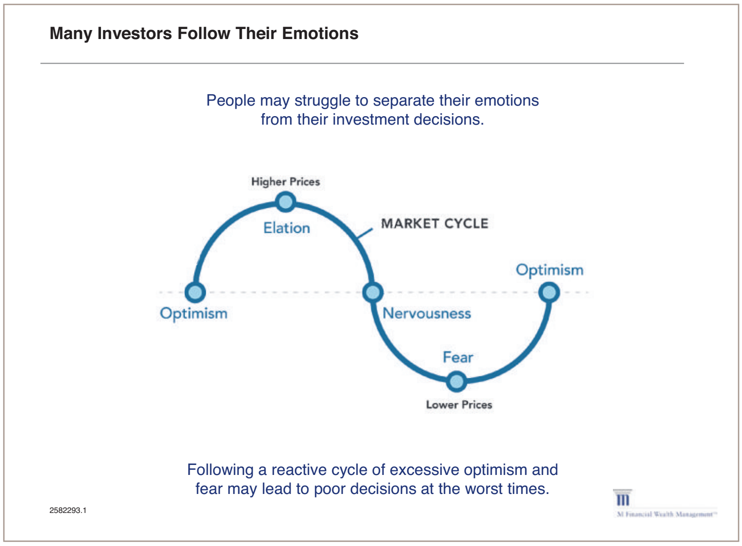
Time to take a deep breath, turn off the TV, and clear our minds. It's been so long since we have had a recession that it is easy to forget that it is an economic decline announced by at least two consecutive quarters of contraction in Gross Domestic Product (GDP). From an investor's perspective this is worrisome as an economic recession is typically tied to a "Bear Market" which is a decline in the market of 20% or more for a period of time (usually at least two months). Although the Bear last reared his head on December 24th of last year, the last prolonged Bear Market was during the Financial Crisis and ran for 17 months from 2007 into 2009 during which the S&P 500 Index lost 50% of its value. For many of us, this drop left some psychological scars that did not heal. That is precisely why it is so easy today for town criers to stir us up now.

Here's the deal. Despite best efforts, economic cycles happen. Trying to predict exactly when a Bear Market will begin or end is extremely difficult if not impossible. For those pointing to the inversion of the yield curve (a phenomena where the yield on a 10-year Treasury is lower than that of a 2-year Treasury) as a harbinger of an upcoming recession, the reality is that the actual event of a recession may not occur for two or three years after the inversion.Market response to an inversion can also seem contrary to an upcoming threat. (See "The S&P 500 Tends to Rise After an Inverted Yield Curve", The Wall Street Journal, Sept. 4th, 2019.)

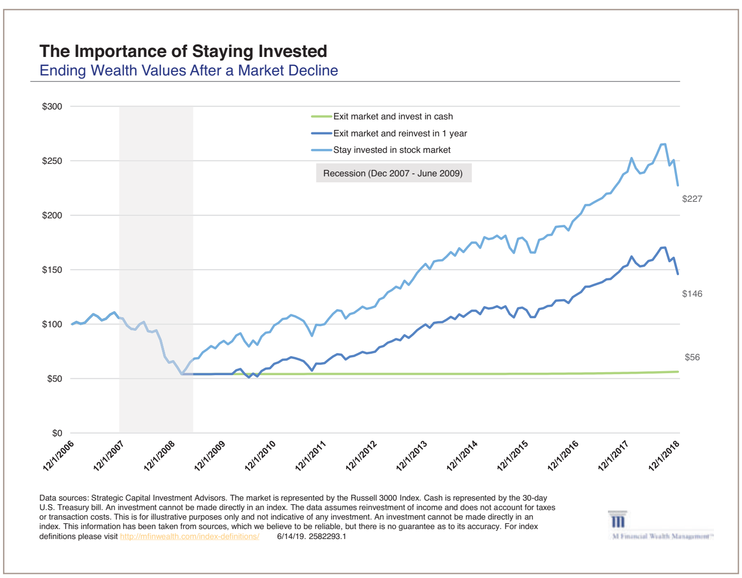
Q: What, then, is an investor to do?

A: If your financial circumstances have not changed and you have a disciplined and appropriate investment strategy in place, stick with it.

It is understood that this may be difficult. Here is how emotions tug at a typical investor:



Remember how stressful the financial crisis was? Here is what happened to investors afterwards depending on whether they exited the market and went to cash, exited the market and then re-entered one year later, or stayed invested throughout:



Overall, equity markets have been on a really nice run for some time now. Although market volatility has returned, as of early September you may very well still be enjoying attractive returns in 2019. If you are concerned about what might be around the corner, now is a great time to set an appointment with your financial advisor. That's what they are there for. If you are seeking a second opinion, my team is a phone call away.

Tom McCartney is the Founding Principal of My Advisor & Planner and a registered representative and investment advisory representative with M Securities. Investments in securities involve risks, including the possible loss of principal. My Advisor & Planner is independently owned and operated. McCartney and his team can be reached at info@mapyourfuture.net or 630-457-4068.

Photo by Indre Cantero