

091809 One Year Later  
By Gary Case

It has been said that a profession in which one may be well compensated for being wrong is that of economist. Seldom has that been more evident to me than now. September marks one year since Lehman Brothers bankruptcy which serves as a marker as the beginning of the most difficult phase of the recent past recession. In the midst of the aftermath of that event, economists and political pundits have put just about every spin possible on what the future holds in terms of employment, economic recovery, inflation, the strength and position of the U.S. dollar in the world, and just about any other financial minutia possible...and opinions vary widely.

Further, the financial services industry, whether banking, investment management, securities trading, venture capital, etc., seems to still be relatively stuck in an extreme protection mode, stubbornly refusing to do much other than cut costs and hoard money. We consumers seem to be following suit, curtailing purchases from big ticket items to vacations. Interestingly, 401(k) contributions seem to be rising again, I suppose as a result of motivation to save money in a tax-favored vehicle. Overall, I think this is a good thing. However, I hope we savers do not become too enamored with risk-taking too soon.

Earlier this year I expressed an opinion that perhaps it is time for those who manage investment portfolios to ask whether traditional ways of thinking about investment management should be modified to better meet the dual (and often competing) objectives of asset growth and capital preservation. Flexibility is a key factor in seeking returns and at the same time paying attention to capturing only a small portion of market declines. Buy and hold was formula for pain in the past year. According to research by Putnam investments, if two portfolios have the same long-term average return, a portfolio with lower volatility will outperform another with higher volatility over time.

I encourage each of us to evaluate how we approach our savings based on how to limit portfolio risk through an approach that focuses on missing as much portfolio draw-down as possible while capturing as much upside as possible. You and your financial planner should carefully evaluate how to best position (and manage going forward) your portfolio.

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