JOHANSON
FINANCIAL ADVISORS

Recession or No Recession

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Contact Us

http://www.johansonfinancial.com

info@johansonfinancial.com

A recession is a temporary business cycle contraction, which results in a slowdown in economic activity. Recessions will generally last 6-18 months. The measurements most often used to identify this slowdown are Gross Domestic Product (GDP), employment, personal income, and industrial production.

A recession is cycled into our economy as normal business activity breaths, grows, and then contracts. We have had 20 recessions in the past 100 years, averaging 1 every 5 years. That being said, we can imagine a 60 year old who lives 30 more years will encounter 6 more of these recessions.

"While none of us enjoy seeing the market decline let's remember that it never goes up in a straight line. Investing is like taking a yo-yo up an escalator."

I was born in 1956 and have lived through 9 recessions. Five of those recessions came after starting my career in 1980. The other day, I was speaking with a concerned client and we realized that after investing together for years we had done rather well surviving 2 recessions in 2001 and 2008. Memories of recessions fade as the markets spring back.

If you listen to some of our news media hyping doom and gloom, they say we are going to enter a recession this year that will bring stock prices lower. First, let's state the obvious and then provide some examples.

Economic forecasters do a pretty lousy job of calling turning points in an economic expansion. Imagine piling a bunch of seasoned sports analysts into a room and ask them who's going to come out on top of an important football or basketball game. While they will offer a thoughtful analysis of each team's strengths and weakness, and may even agree on multiple points, they will draw different conclusions as to the outcome. And their predictions for the final score, well, those will vary widely. None of the analysts get the score right on.

The same holds true for Economists.

Take former Fed. Chief Alan Greenspan, who headed up the Federal Reserve from 1987–2006. In March 2007, Greenspan said there was a "one-third probability" a recession would take hold in the U.S. that year. By December 2007, the U.S. would enter what would eventually be called the "Great Recession". So much for Dr. Greenspan's complex forecasting models. Any hunches he may have had at the time were more in line with what was eventually to pass.

At the same time, Greenspan's successor, Dr. Ben Bernanke, told Congress the economy might strengthen, "Overall, the U.S. economy seems likely to expand at a moderate pace this year (2007) and next (2008), with growth strengthening somewhat as the drag from housing diminishes." Wow. In hindsight, his comment on housing reveals he was completely oblivious to the economic problems the country was about to face. Yes, the best and brightest are often surprised and humbled by circumstances outside their control.

As you can see, economic forecasting is an inexact science. But I'll give you my opinion - we will descend into another recession. That's right, I said it. The odds are against 2016, but it may be in 2017, 2018, or beyond. An eventual recession, and subsequent recovery, in a free market economy is to be expected.

When it does happen, stocks often lose value since bear markets closely correlate with recessions. As recessions unwind, the Federal Reserve, and our elected officials hurry monetary and fiscal stimulus to kick-start the economy and off we go again. Oh how Politicians like to get voted back in. The cycle continues.

While the individual plans we recommend mitigate some of the risks, they do not eliminate them. Over the longer-term we are confident the plans have you on the path to achieve your financial goals.

Given the volatility that strikes the market from time to time, we want to encourage you to avoid watching the daily gyrations that cause panic.

Warren Buffett offers some valuable insight—

> "Games are won by players who focus on the playing field—not by those whose eyes are glued to the scoreboard. If you can enjoy Saturdays and Sundays without looking at stock prices, give it a try on weekdays."

That brings us to our final point. "Markets over a long period of time are going to go up," Buffett said in February, during an interview on CNBC. His advice is an excellent foundation for those with a long-term perspective. While none of us enjoy seeing the market decline let's remember that it never goes up in a straight line. Investing is like taking a yo-yo up an escalator.

More conservative portfolios may have just 20-40% of their assets in stock funds, ETF, or individual stocks and many of the equities we recommend are in more conservative, dividend-paying shares. That means 60-80% of your investments are outside of stocks. By definition, these are more conservative in nature, which limits the downside in turbulent markets. Still, we continue to recommend some exposure to equities, which allows us to capture some of the upside when stocks rise.

Bottom Line

As always the case, there is plenty of uncertainty in the world and we are bombarded with bad news on a daily basis. However, we believe this comment from Buffett's just-released 2015 annual letter to Berkshire Hathaway shareholders reflects our sentiment:

> "For 240 years it's been a terrible mistake to bet against America, and now is no time to start. America's golden goose of commerce and innovation will continue to lay more and larger eggs. America's social security promises will be honored and perhaps made more generous. And, yes, America's kids will live far better than their parents did."

If you have any questions or matters to discuss, please don't hesitate to give us a call to go over your specific situation. Our great team at Johanson Financial Advisors are equipped to assist you.

Have a great March.