Commentary From Our Investment Team

Third Quarter 2023

Knowing What to Do Makes Less Room for Worry

One of the clever dramatic devices you'll find in Shakespeare is the letter-delivered-on-stage. As the recipient reads it aloud, the audience experiences all the emotions of the scene it's describing just as if they had seen it happen.

Of course, this is a useful way to portray large battles. You don't need dozens of performers executing complicated fight routines. You just need a couple of actors and a piece of paper.

This is similar to the way we receive news about the stock market. We can't possibly witness the millions of complex transactions that make up a day of trading. But we can read or watch financial pundits' descriptions of what happened and feel all the elation or dread as if we had actually seen it.

The raw numbers, such as where the Dow ended the day are not very exciting. It's the interpretations and predictions based on those numbers that really stir the emotions. If the market is down one day, it can be framed as the early sign of a recession. Or the complete opposite—an expected correction before the market resumes its climb.

It's like a stage character has just finished reading one exciting missive, when a messenger rushes up with another one that contradicts everything the audience has just heard.

The third quarter (July-September) seems to have had more than its share of mixed messages. We've heard that both corporate and personal borrowers have been feeling the bite of higher interest rates. For example, mortgage rates are at 20-year highs. But despite this and other challenges, the market continues to grow.

The Federal Open Market Committee (FOMC) seems to think inflation is cooling and so raised rates only modestly in the past quarter.[1] However, few investors or consumers believe that inflation has been contained. So the possibility of higher rates going forward must still be accounted for.

Linette Lopez, a senior correspondent at *Insider*, has compared the trickiness of tackling inflation with the greased pig catching contest common at county fairs years ago. The rules were simple. An energetic piglet was covered in a slippery substance and released into a large pen. The person who could catch it and present it to the judge would win a prize. Touching a greased pig isn't too difficult. But actually picking it up can seem nearly impossible.

"Since the pandemic," writes Lopez, "America has been living in an economic version of the greased-pig game—prices have been running free despite assurances from policymakers and economists that the pig (inflation) will be caught soon, which is to say, brought down to the Federal Reserve's 2% target."[2]

This metaphor is especially fitting, because just like the crowd at the county fair who thinks they have the greased pig cornered, investors and policymakers believe inflation is finally under control. But like a piglet who does not want to be caught, it could wriggle free at any time.

Not knowing what the economy will do in the near future can be worrying. To deal with that possible anxiety, you have two choices. The first is to limit your intake to good news. No matter what happens, try to find someone who can put a positive spin on it. The second is to follow a plan that takes into account both the good and bad.

Imagine how many hundreds of times an airline cabin crew has gone through the flight safety demonstration. They bring up the scenarios no passenger wants to think about: loss of oxygen, a crash landing, and even ending up in the ocean. Yet when turbulence is bucking the plane around, they seem to be the most serene people aboard.

It's because their demonstration shows that they have a plan to follow should misfortune occur during the flight. And they know from experience that air

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Knowing What to Do Makes Less Room for Worry (continued)

disasters are quite rare.

The Stoic philosopher Seneca said, "We suffer more in imagination than in reality."[3] His contention was that when we spend time worrying about a possible problem, we suffer more than if we were actually experiencing the problem.

This kind of "borrowing trouble" can be especially easy when thinking about your financial future. There are an unlimited number of things that could possibly go wrong as you work toward your fully funded retirement. If you meditate on any one of them, imagining it progressing to the worst possible outcome, you can really make yourself suffer.

Seneca didn't believe in irrational optimism. He said that bad things can and do happen. But, he advised, instead of using that knowledge to torture ourselves, we should use it to prepare ourselves—just like the flight attendants. Then we can face possible problems realistically and with a plan.

In the same way, you can have more peace of mind about your finances when you first, learn which risks are most likely, and second, have a plan that takes those risks into account. If challenges do arise—and they are bound to—you're prepared to address them, eliminating the need for panic or worry.

Your trusted financial advisor is a valued ally in maintaining your peace of mind. He or she can help you refine a plan that considers your unique situation, including the risks you're likely to face, and then help you deal with challenges in ways to lessen your worry.

Sources:

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