THE DISTELFINK – What's In a Name?

January 11, 2010

Whew! What a month, what a year, what a decade. Banish and good riddance to them all! December involved too much drama and never enough time. 2009 included extreme volatility in the financial markets, heavy de-leveraging by consumers with negative consequences to economic growth, and unprecedented spending by governments around the world. Meanwhile, the first decade of the millennium epitomized the "mother of all hangovers", following the great final hurrah of the 1990's and the wringing out of excess we all enjoyed too much. We've paid our price, and we've learned new lessons. Bring on this next ten year window of time. But what do we call it - this decade of ten, tweens and teens? It should be called the TTT's, of course!

Not tees for scandalous Tiger. Not tease for the latest workout craze to sweep the country – poll dancing. Not 'ties for the abbreviated ends of the 20's 30's 40's etc… TTT's stands for tough, tenacious, tried and true. TTT's portends a decade of thrilling new trends, dynamic teachings and thoughtful mentors to guide us through it all. It signifies time for pay back. It means the mean has been returned to, and it's time for investment returns to move forward again.

If we take any stock in using data from the past to make predictions about the future, then one has to believe that there are positive returns to be enjoyed by equity investors this decade, and quite probably well beyond. When one studies the returns for stocks in the ten and twenty year periods after the 1930's and 1970's – decades of negative or negligible returns – one has to feel that we are poised for a rebound. Of course the timing of such a rebound is as obscure to predict as ever, but for those investors with a long view, who are willing to stay the course with a certain portion of their assets, I believe the decade of the TTT's will reward them. Equity returns during the 1940's were relatively meager averaging less than 4% a year, while the period of the 1950's generated almost 10% average annual returns. Stocks in the 1980's compounded at over 9% a year, and the glory years of the 1990's produced returns north of 12% a year. So what kind of average return should we anticipate during the TTT's? Who knows? But with money market funds offering barely any yield, and taxable bonds historically giving 5% +/- a year, I'll take my chances on stocks to boost my retirement savings at least 5% annually for the decade of the TTT's, and perhaps a bit more with a spot of luck too.

We have forgotten how to be patient investors. The equity markets of the 1980's and 1990's mirrored our capitalistic ways of continually seeking more, and faster, and better. That may be great in technology, but it doesn't necessarily compute in all financial market conditions. The combination of disciplined and deliberate saving, with reasonable growth from investment in stocks, and bonds, will help investors achieve their long-term goals. We lost track of these fundamental rules in the excitement of the '80's and the 90's, and then we just lost our way in the confusion of the 2000's. We have an opportunity to reconfigure again in this fresh new month of January 2010. Let's do it with careful thought, a measure of patience and a commitment to stay the course, even if we don't always know where that course is leading us. I am hopeful about the TTT's, and I hope now you are too.