CLIENT'S CORNER

The February Correction:

Why Ask Why?

IT'S PROBABLY A LITTLE EARLY, IN THESE waning days of February, to suggest that the recent and rather violent correction in the equity market may already have run its course. It either has or it hasn't. I can't predict which—heck, I can't predict ***anything***. No shame in that: in fifty years, I've never identified anyone who could consistently call short-term turns in the market, and my personal conviction is that no one can.

> Unsuccessful investors ***react***: they make significant changes to their portfolios in response to real or imagined economic or market "crises" such as the aforementioned correction.

Besides, I'm much more interested, in this little essay, in investors' impulse to try to figure out **why** this correction happened when it did and the way it did. At times it has seemed that there are as many theories regarding this as there are talking heads on financial television and the Internet. My purpose here, therefore, is to suggest that putting a lot of time and effort into **why** doesn't really get us anywhere in terms of successful long-term investing.

Not to put too fine a point on it: if we could be absolutely sure we knew **why** the market had backed up so suddenly and sharply (but also shallowly, at this writing), we still couldn't be sure whether or not the correction was a spent force. And if we can no more time the end of this correction than we could its onset, ***why ask why?***

For the record, the usual **why** suspects this time around seemed to include, but were certainly not limited to:

(a) the market having simply run too far too fast, capped off by a spurt in excess of 4% in January;

(b) upticks in interest rates and wage growth, possibly signaling higher inflation;

(c) high-frequency algorithmic traders frenziedly pecking each other to death somehow;

(d) a dark, sinister force manipulating the Chicago Board Options Exchange's volatility index (VIX); and quite possibly

(e) all of the above.

If you don't immediately get any sense of clarity from that recitation—if it doesn't give you a shadow of a clue what ***if anything*** you should do with your portfolio in response—you've at least anecdotally demonstrated my point: **why** not only doesn't get you anywhere, but ought to be irrelevant to the investment policy of a long-term, goal-focused, planning-driven investor.

Above all, successful investors ***act***: they pursue long-term plans which have some broad historical likelihood of carrying them toward their financial goals, and they hold portfolios in service to those plans. They accept the probability that their investment outcome will at times be running above the plan's assumed return (e.g. this January) and below it (e.g. the recent unpleasantness). Often with the steadying counsel of an experienced and empathetic financial advisor, they simply continue to work their plan.

Above all, unsuccessful investors ***react***: they make significant changes to their portfolios in response to real or imagined economic or market "crises" such as the aforementioned correction.

Even if the driver of your investment policy is an intelligent long-term plan, there's still no guarantee that you'll achieve all your financial goals. On the other hand, if the driver of your portfolio is the randomness of the market's occasional panic attacks—and the fruitless quest for **why**—the likelihood of ever achieving your goals seems, to this one observer, much diminished.

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