**Call us:**
866-CREATIVE

**Email us:**
cpi@creativeplanning.com

**Visit us online:**
www.creativeplanning.com

APRIL 2020

# PLAYING THE ODDS

## STOCKS COME AND GO, BUT THE BROAD MARKET EVENTUALLY HEADS HIGHER

Jonathan Clements
Director of Financial Education

On Wall Street, there's a story—apocryphal, I suspect—that's told about an old trader, a young trader and the 1962 Cuban missile crisis.

Old trader: "They say this could lead to nuclear war."

Young trader: "So we should buy bonds, right?"

Old trader: "No, we should buy stocks. If we don't get war, the stock market will rally. And if we get a nuclear war, it won't matter what we own."

Today's pandemic won't lead to nuclear war (except perhaps in the Oliver Stone movie version). But many folks seem to fear the economic equivalent: that we'll suffer a downward GDP death spiral that sends us back to the Stone Age.

Needless to say, this would not be good for share prices. But do you imagine you'd be any better off if you had your money in bonds, Krugerrands or certificates of deposit? Let's face it: If the economy ceases to function, it won't matter what you own. What if the economy recovers, which everybody—except your crazy uncle—expects will happen eventually? Stocks will go up.

**BUY STOCKS. DIVERSIFY BROADLY. WAIT PATIENTLY.**

In other words, owning stocks is an asymmetrical bet. As with bonds and cash investments, the most we can lose in the stock market is 100% of our investment. But with stocks, your potential gain is far larger. In fact, it's infinite. To be sure, we haven't yet reached infinity—and even the most bullish Wall Street strategists aren't anticipating that any time soon—but we've been doing pretty well. Over the past 100 years, the S&P 500 has climbed 1,573,425%, including reinvested dividends.

True, there have been periods—like today—when you would have been better off avoiding stocks and instead going long cash, hand sanitizer and toilet paper. But these periods typically don't last more than a year. Indeed, to profit from a stock market downturn, you need to be right not only about the direction of share prices, but also in your timing. History tells us that almost nobody is consistently smart enough or lucky enough to succeed with such bearish bets.

That leaves the rest of us—we poor wretched souls who are neither clairvoyant nor preternaturally lucky—to do the sensible thing, which is to play the lopsided odds offered by the stock market's asymmetrical bet. Over time, we should allocate as much as we prudently can to stocks, knowing that we'll suffer occasional rough patches, but also knowing that the stock market's long-term direction is up.

That doesn't mean we should stash everything in stocks. If we have money in our portfolio that we'll need to spend soon, that should be in conservative investments, so our spending plans aren't derailed by plunging share prices. Similarly, if we're nervous investors, we might keep more in bonds, so our portfolio's short-term performance is less erratic.

But even then, a significant portion of our portfolio should always be in stocks. At times like this, the clever cocktail crowd might view such optimism as naïve and unsophisticated. But guess what? In the financial markets, optimism—or, at least, prudent optimism—invariably wins.

How can I be so sure? Forget about economic growth, dividends and corporate profits—the usual reasons given for owning stocks. Instead, simply look around. Consider how people are behaving during this extraordinary period. Here are just five examples of what I see:

- I'm a member of the Barnes Foundation, the fabulous museum in Philadelphia. The museum is closed because of COVID-19, but every weekday an employee posts a video discussing one of his or her favorite paintings.
- Across the country, protesters are demanding that governors allow local businesses to reopen.
- As Creative's president, Peter Mallouk, discussed in a recent client letter, scam artists have rushed to take advantage of the pandemic.
- Unable to compete against each other in person, professional basketball players have faced off in long-distance games of HORSE, trying to make baskets from different locations on the court.
- Where I live, barbershops aren't considered an essential service and should be closed. Yet my local barber—a hardworking Russian immigrant—Is open, wielding his scissors while wearing a mask.

What do all these folks—some inspiring, some misguided, some larcenous—have in common? They're trying to make the best of a bad situation. It's who we are as humans. We're relentlessly driven to

**Call us:**
866-CREATIVE

**Email us:**
cpi@creativeplanning.com

**Visit us online:**
www.creativeplanning.com

make our lives better. This impulse is especially strong in capitalist societies, because it's often further incentivized by the prospect of financial gain. It's the reason I'm fully confident we'll recover, and probably recover with surprising speed, from the current economic slowdown.

Want to benefit from this relentless drive? That's why we invest in the stock market.

I don't know which stocks will fare best in the months and years ahead. Some companies—both privately held and publicly traded—will never recover from today's economic shock. Indeed, with any one individual stock, we could end up on the wrong side of the asymmetrical bet and lose 100% of our investment. Even entire national stock markets (hint: Japan) can struggle for decades.

But those who bet on the global stock market for the long haul have never lost 100%. For these investors, the asymmetrical bet has always been a winner. After every stock market decline, share prices globally have recouped their bear market losses and then headed higher. Every single time. Want this upward trend to be your friend? The formula is very simple: Buy stocks. Diversify broadly. Wait patiently.

**Call us:**
866-CREATIVE

**Email us:**
cpi@creativeplanning.com

**Visit us online:**
www.creativeplanning.com

*We appreciate your confidence in us and welcome introductions to friends, family, and colleagues.*