Key Questions

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Is Today a Bad Time to Invest?

George Mateyo, Chief Investment Officer

The Key Wealth Institute is a team of highly experienced professionals from across wealth management, dedicated to delivering commentary and financial advice. From strategies to manage your wealth to the latest political and industry news, the Key Wealth Institute provides proactive insights to help grow your wealth.

"In my 25 years in the investment business, I have never known a good time to invest. Today is no exception: elevated interest rates, concerns over inflation, worries about Washington, constant strife in the Middle East." All of these — and more — suggest today is a bad time to invest.

Those words could have been said yesterday. But it might surprise you to know that these words were spoken more than 40 years ago by the late chairman of one of the world's largest and most successful mutual fund companies.[1]

He continued: "A cautious person might be tempted not invest under such circumstances — unless he/she wanted to take advantage of opportunity." So logical, and so incisive.

People and institutions invest to earn a return to fund certain obligations, some of which are fixed or binding, while others may be variable or flexible. Regardless, to earn the expected rate of return, investors must assume some amount of risk. Moreover, when assuming a certain level risk, the sensible investor must acknowledge that the outcome, in most circumstances, is not assured nor is it entirely knowable at the investment's inception. To quote another investment icon: "If we knew everything that was going to happen, there wouldn't be any risk".[2]

To help address such pervasive and unavoidable uncertainty, investors, we believe, are best served to think in terms of probabilities versus absolutes. And while seemingly uber-confident utterances of the latter (i.e., point-specific prognostications) tend to draw more attention, relying on experience and wisdom to opine on the former (i.e., a set of probabilities applied to a series of potential outcomes), while also acknowledging a degree of humility, is a better recipe for long-term investment success, in our view.

Yet, thinking in probabilities may prove insufficient for risk is, in many respects, counterintuitive. To wit: as an asset declines in prices, making people view it as riskier, it actually becomes less risky. Conversely, as an asset appreciates, causing people to view it more attractively, it becomes riskier. Moreover, holding only one "safe" asset in a portfolio is actually riskier than holding a few "risky" assets, for doing so increases the portfolio's overall diversification.

In brief, "while you shouldn't expect to make money just for bearing risk, you also shouldn't expect money without bearing risk".[3]

With this in mind, it is appropriate to acknowledge the crosscurrents buffeting investors today are abundant and intense. But it is also important to highlight the fact that long-term, patient investors have been repeatedly rewarded by assuming tolerable amounts of volatility, remaining disciplined, and seizing opportunities when they arise.

Consequently, we believe investors should revisit their allocations to cash reserves and, once liabilities are adequately accounted for (along with a potential buffer, if desired), extend the duration of their overall portfolio and consider owning high-quality, short-term, fixed-income securities and high-quality, dividend-paying stocks and incorporate other strategies to achieve a fully diversified portfolio.

We also think investors may need to employ an active and agile stance this year, being cognizant of concentration risks that may exist in straight-forward index funds and related ETFs; consider diversifying into areas of the market that have under-performed; and be prepared to commit capital amid pullbacks.

In sum, there is always a reason to believe that today is a bad time to invest. But by accepting the fact that the future is uncertain and unknowable; by planning and acting in a prudent, responsible manner; by embracing acceptable levels of risk; and by maintaining a sufficiently long enough time horizon, investors will be rewarded accordingly.

[1] Graham Holloway, American Funds Distributors (1930 - 2009).
[2] Howard Marks, Oaktree Capital Management (2014).
[3] ibid.

For more information, please contact your advisor.

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