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The Osbon Minute

Pessimism is the new black – the latest fashion

It is hard to recall a time when investor pessimism has been more in vogue than it is today. Yes, there is plenty of bad news to go around – imploding European economies, slipping US job growth, record deficits, and fears of a dreaded double dip. What's worse, even good news is being interpreted as bad. Record corporate cash of $10 trillion is seen as corporate timidity, rather than prudent deleveraging. Many efforts to sustain economic expansion are seen as too late, too slow, too tepid, too fleeting. You'd think it was 1937 again. Is all this gloom really justified, and what's it mean for investors?

Let's face it: doom is nigh. Unless it's not. Perhaps the most humbling reality of investing is that it is impossible to know what will happen next. The economic recovery and equity markets may surge ahead tomorrow or wallow for months. Pessimism may be justified, or just plain wrong. Trying to decide which, and adjusting holdings accordingly is, unfortunately, a guessing game. History suggests that market turning points – up or down – often come when least expected and have limited connection with the headline news.

We don't predict. We plan.

While investors may be tempted to jump in or out of different securities or asset classes based on unknowable and uncontrollable future events, we suggest focusing on what can be controlled – asset class mix, diversification, expenses, and taxes. These elements matter in all seasons, and especially in turbulent times.

Rather than buying an entirely new investment wardrobe every time the forecast changes, we suggest creating an all-season portfolio that offers some level of comfort and protection no matter what happens next week or month in Washington, in Greece, or at the Fed. Your portfolio should be designed based not on the nightly news or the commentary of hedge fund managers on CNBC, but on your own goals and priorities and the level of risk that allows you to sleep at night.

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Pessimism may be popular, but that doesn't make it right. Anything can happen – great, horrible, or indifferent. Expecting the worst makes no more sense than counting on miracles, and neither perspective is a strategy. Turbulent markets can be frustrating, but they also provide a strong incentive to evaluate how well-suited your portfolio is to your long term priorities.

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