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Waiting for the Barbarians

QMR Q2

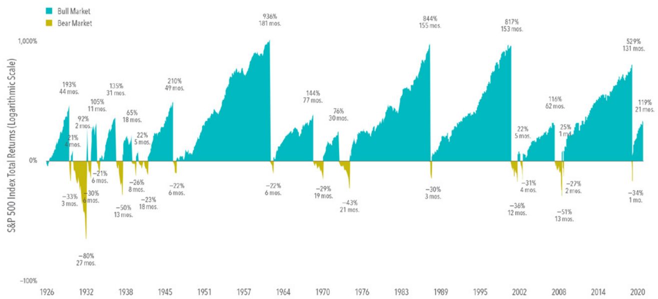
There are some occupations where you spend your entire life preparing for a crisis that never arrives. I am reminded of Dino Buzzati's *The Tartar Steppe* (1940) - influenced by the poem *Waiting for the Barbarians* (1904) but in turn inspiring the novel *Waiting for the Barbarians* (1980); it's turtles all the way down.

The Tartar Steppe follows a soldier stationed at a remote fort on the edge of the Tartar desert. The fort was built as a bulwark to protect civilization against the nomadic barbarian hordes of the steppe. The soldier trains and prepares for what will surely be a great war. But the barbarians never cross the horizon. The soldier is offered a chance to return home but refuses because he knows the war is just around the corner. Years turn into decades and decades into a lifetime. When the barbarians do attack, the soldier is an old man, and the fort's new commanding officer orders the old soldier to return to civilization as he is now a liability to the fort.

I am reminded of *The Tartar Steppe* because being the son of a financial advisor, I have read, studied, and prepared for how to handle bear markets, but have never faced one myself. It has been years of staring out from the battlements – waiting. I imagine many young and untested financial advisors feel the same way. However, we never wait a lifetime for these downturns and it's worth reviewing how we've prepared.

Benchmarking History and Building Perspective

When I look at the below graph, I see two things. The first is that I love the teal color, and there is plenty of it. The second is the dull gold color I've been more familiar with the last few months, but from this viewpoint, there isn't a lot of it. This chart spans the Great Depression, World War II, Vietnam, the inflation crisis of the late 1970s and early '80s, the Great Recession, and Covid-19. Despite all those events the chart has mountains of teal. No one enjoys losing, even if it's just a blip on the clock, but this chart puts into perspective the returns generated by being in the market over the long run.



Furthermore, we forget capitalism is strengthened by the individual failings of companies. It's extremely painful and potentially ruinous if you own the individual stocks of these companies (our clients don't or are adequately diversified), but the market incorporates lessons from failing companies; maybe there is a fixed number of exercise bikes people will buy, perhaps earnings matter, etc. Just as Darwinian evolution is strengthened by the survival and failure of individual organisms, the market doesn't learn without the pain and death of business experimentation. I like to think this thinning of the market is partially responsible for the bounce back we see after market declines, with bad businesses being shuttered, great businesses expanding, and new businesses being added. The life cycle continues.

Planning

Building perspective informs our planning. During review meetings we often say, "we are building an ark, not predicting floods." What we try to communicate is

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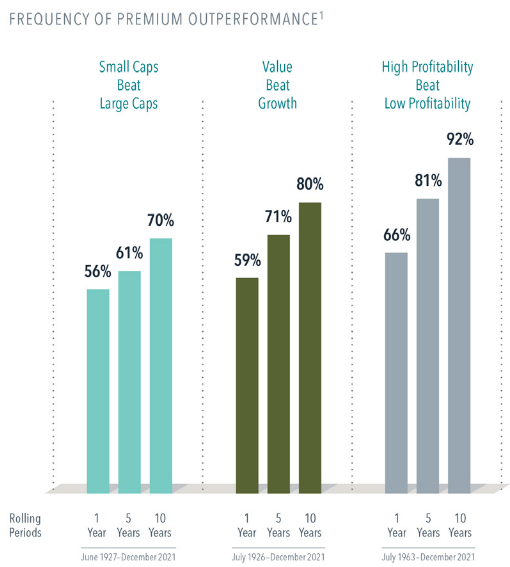
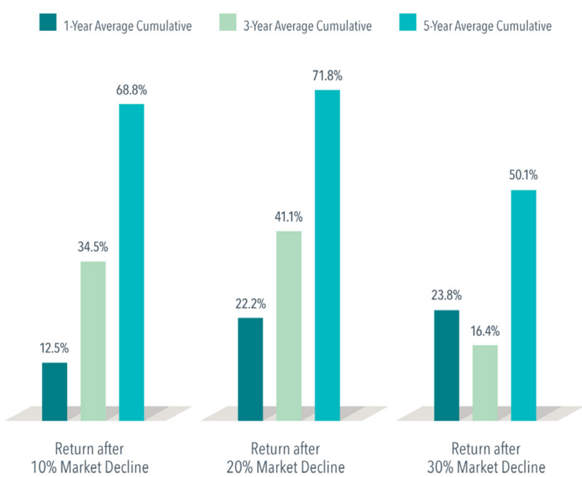
that your financial plan is designed to make it through challenging times. We prepare via the following:



Investment Selection: Your portfolio is not the S&P 500. It is globally diversified and tilted towards small and value companies which have outperformed growth stocks both historically and during this downturn. This is by design. We are guided by historical and evidence-based investing criteria, not fads.



Past performance is no guarantee of future results.

Over the past couple of years, we have added alternative assets and private lending, which has offset some of the decline. Furthermore, your portfolio is poised to take advantage of downturns if there is an opportunity to rebalance.

Goal/Retirement Planning: Goal and Retirement Planning and Investment Selection are unique in that they play off one another. During the planning process we review whether your retirement income and life goals are in alignment with what a responsible portfolio can deliver. The key word there is "responsible." If you don't have a high enough savings rate for your goal, no amount of prudent investment selection will help you. Hoping for higher-than-average returns is not a strategy and is not part of our planning process. Your financial plan is tested using conservative return expectations, Monte Carlo analyses, and capital surplus tests.

Risk Mitigation: Though not a market correction concern, your financial plan includes non-market related risk mitigation with estate planning, trust services, and insurance (LTC, life, liability, etc.) when necessary.

Poise

People who choose to face grave and uncertain danger without preparation are either incredibly brave or naive. My money is on naive since African lions ate the uncommonly brave homo sapiens some two hundred thousand years ago. Instead, most of us are either confident we can manage uncertainty because we prepared ahead of time or are fearful because we did not. Your financial plan provides you with the confidence needed to avoid the dangers of fearful decision making. Market declines are intimidating. Especially when they coincide with the Hydra that is inflation, but we need to be rational and methodical in our decision making. Rash decisions, such as exiting the market, can be ruinous. As Ty says, "Declines we can deal with. Selling at the bottom is impairment and near impossible to recover from."

Over the years we've reminded clients of the inevitability of a bear market. Recessions arrive every eight or so years and Germanic tribes crossed the Roman frontier every generation. It's the world we live(d) in and part of the planning process. The barbarians are here; yet the fort is manned.

If you have any questions or concerns,
please give us a call. This is the reason we're here.

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