THE ANXIETY OF UNCERTAINTY

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PRIVATE WEALTH MANAGEMENT

Welcome to June! Every month, we like to impart some perspective on the financial markets or shed light on a current headline or two, all to help our clients sift through the noise and become slightly more educated investors. We welcome your comments and suggestions, and as always, we invite you to share this piece with anyone you believe may find it of interest.

With the financial markets once again flirting with all-time highs, we all want to know what's going to happen next. Will stocks continue their upward trajectory or are we destined for a pullback....and if a downturn is indeed on the horizon, how bad will it be and how long will it last?

It's only natural to seek answers in a world of uncertainty and unpredictability. Surprisingly though, dealing with the unknown may actually be more challenging than facing known outcomes or imminent chaos. It may sound odd, but evidence of this phenomenon is all around us.

Many of us have known someone awaiting a critical test result, or perhaps we've experienced it ourselves. The real discomfort often isn't from the diagnosis itself, but in not knowing what may lie ahead. Of course, the relief in actually knowing is found in the ability to formulate a game plan, rather than struggling through the anxiety of uncertainty.

The same psychological phenomenon was observed following the London Blitz of World War II. At the height of the war in the U.K., London was bombed nearly continually while the suburbs were targeted only sporadically. In the medical studies that followed[1], researchers discovered that those living in the suburbs suffered from greater incidences of stomach ulcers than those in central London, presumably due to higher levels of stress. No one, of course, would choose to be subject to continual vs sporadic bombing, but it turns out that the uncertainty surrounding the if and when inflicted considerably higher levels of anxiety than knowing.

In the world of financial markets, the anxiety of uncertainty manifests in much the same way. Imagine if we all knew a bear market would begin in July, last for 22 months, and draw down the S&P 500 by 34%. Armed with this knowledge, we'd get to work right away formulating a strategy to navigate the downturn. We'd reassess our portfolios, perhaps allocate assets more defensively or raise some cash reserves to mitigate volatility. The very act of planning would provide a psychological buffer against the fear of the unknown, replacing anxiety with a structured approach. And rather than being paralyzed by uncertainty, we would feel empowered by planning thoughtfully for what we knew was headed our way.

Contrast this with the pervasive worry stemming from simply not knowing when the next bear market will appear, how long it will last, or how severe its impact may be. The result is a sense of unease and a near-constant assumption that every garden-variety pullback is the beginning of something much worse, even if most of the time it is not.

So it's not the bear market itself that instills the fear; it's the anxiety of the uncertainty that causes so much angst.

This is exactly why we encourage our clients to remember that bear markets are as much a part of the investing landscape as bull markets, and that the key to navigating them lies in understanding and preparation. While we remain upbeat about the future, we know that smart planning is always essential. Success in investing often hinges on the avoidance of self-inflicted wounds, so it's prudent to anticipate the downturns and assume that one may appear any month, quarter, or year. If we anticipate, we'll be prepared. If we're prepared, we won't panic, and without panic, we're more likely to make sound investment decisions and succeed as investors. And by staying calm and strategic, we materially increase our likelihood of achieving our financial goals, which of course is the ultimate objective.

Onward.

[1]Widen the Window, Elizabeth A. Stanley

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