Here Comes Santa Claus

If you spend any time in the financial services profession, you will realize very quickly how infantile much of the received wisdom from Wall Street can be.

"Don't frown; average down!"

"Sell in May, go away!"

"The trend is your friend!"

And perhaps my favorite, "the Santa Claus rally." Yes, grown men and women in navy-blue power suits apparently believe that Santa Claus brings good boys and girls higher stock prices for Christmas.

As silly as all of this is, there is often at least a little truth in Wall Street maxims. Seasonal patterns are a very real phenomenon, and the market tends to do better from November to April than from May to October. Trend following can also be a great strategy if done right. And many traders do indeed average down (though trend followers are a lot more likely to average up).

As investors, it can be easy to get wrapped up in these kinds of discussions and miss the big picture. If we can add a few percentage points to our returns by employing strategies like these, then there is no harm in trying. But it is far more important to focus on the basics first, such as building the right portfolio allocation and building viable income streams that will last in retirement.

It's also important for us to understand the macro environment that we are operating in. If you invest with an expectation of stable prices but we instead get high inflation, your retirement could be at risk. But in the same vein, investing for inflation when flat or falling prices are the reality can be equally devastating.

Right now, demographic trends point to stable or slightly falling prices on most consumer goods. As the Baby Boomers aggressively save for retirement and pay down their debts, they take money that might have been spent in America's malls out of circulation. And at the same time, businesses have less reason to borrow to expand their operations in a period of lukewarm economic growth. And even in the home mortgage market, most borrowing these days is for refinancing, not new purchases.

All of this is a long way of saying that high inflation will not be likely in the years ahead. Deleveraging—or the paying down of debt—is deflationary. And in case you hadn't noticed, America has quite a lot of debt to repay.

For us, this means focusing on investments that do best is a period of stable or even falling prices.

Inflation will return. Of this, I am absolutely certain. And before it does, we will want to change our portfolio allocation to take advantage of rising prices. But I do not expect to see much in the way of inflation for the next several years.

Sincerely,

Jeremy E. Portnoff

Jeremy E. Portnoff, MSFS, CFP®, AIF®, CRPS®, CES™, CFS®, CTS™, CAS®, CIS™
NAPFA Registered Advisor
Ed Slott Master Elite IRA Advisor
HS Dent Master Certified Advisor
Paladin Five-Star Advisor