July 2014 *MoneyMinute* – Nobody Knows

If it weren't for the fact real money is at stake, it would be amusing to observe how the market reflects its human participants – in all of our enterprising glory as well as all of our quirky behavioral foibles, including herd mentality. Today provides a picture-perfect illustration of the latter, in which a run of trades begat a larger run of trades for what *The Wall Street Journal* referred to as "no single catalyst for the stumble."

That's a fancy way of explaining the market's drama by saying, "Who knows?" Despite today's news of Argentina's apparent default and some disappointing earnings reports, the global news hasn't really changed all that much. All of the social, political and economic promises and threats that existed yesterday still exist in approximately equal measure today. There have been no asteroid crashes. So why is it that the market, in its collective wisdom, chose July 31 to decline?

Even a brief scan of the financial news headlines yields any number of plausible explanations and a plethora of predictions on what will come next. The truth is simple: We don't know. Nobody knows.

We know it can be painful and hard, but as scary as headline news may be, market drops also serve as excellent, real-life illustrations of a message we keep coming back to: Withstanding market risk when it actually appears is easier said than done.

And yet, withstanding the risk is what we must do – together – because it's exactly this type of market risk that we deliberately build into client portfolios, globally diversified among stocks and bonds alike.

The alternative – buying or selling with the herd when bad news strikes – doesn't work because:

1. By the time you've heard the good or bad news, the rest of the market knows it too, and already has incorporated it into existing prices.
2. It's unexpected news that alters future pricing, and by definition, the unexpected is impossible to predict.
3. Any trades, whether they work or not, cost real money.

Rather than try to play an expensive game based on information over which we have no control, we continue to recommend investing according to market factors that we can expect to control, such as:

1. Minimizing costs
2. Forming an investment plan to guide our clients' way – and sticking with that plan
3. Capturing returns by participating in expected long-term market growth
4. Maintaining diversified holdings to dampen market risks

We say this over and over, but it bears repeating whenever market risk resurfaces: Stick to your long-range plans – or deliberately revisit them if your personal goals have changed. We expect the markets to be volatile. Only the timing is a surprise.

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