Current Investor Concerns

SYNOPSIS

- Slow economic growth, Fed policy decisions, and China represent three of the biggest concerns on the minds of investors right now.
- Many of the current investor concerns have been around for decades, and they will most likely continue to persist for some time.
- Once everything in the economy is strong and not even the most bearish pundit can find a problem, that will be the time to sell.

WHAT'S CONCERNING INVESTORS THESE DAYS

Investors have plenty to fret about these days, and the volatile start to the year certainly has not made things better for the psyche of most investors. Although the list of current investor concerns is quite extensive, let's look at three of the more prevalent issues at the moment:

1. Sluggish economic growth
2. Fed policy mistakes
3. China is a "house of cards"

SLUGGISH ECONOMIC GROWTH

It's safe to say that most investors have heard one or more of the following since the financial crisis ended:

> "The US economy is stuck in one of the most sluggish recoveries in history."
> "Growth is just 2% and it will remain slow as consumers and companies work off vast amounts of debt."
> "The country has gotten off track, as consumers have become disillusioned with the American Dream of rising prosperity. Americans don't see any solution in sight."

These statements may sound familiar, but in reality, they were actually written in Time Magazine back on January 13, 1992 (months before the start of one the biggest bull markets in history).

Many of the current concerns are the same ones that plagued investors ten and twenty years ago.

Recession: Why We're So Gloomy

Time (via Carpe Diem): Recession: Why We're So Gloomy

Well, why are Americans so gloomy, fearful and even panicked about the current economic slump? U.S. consumers seem suddenly disillusioned with the American Dream of rising prosperity. Hard times are forcing some people to turn their back on the American Dream.

"Whining" hardly captures the extent of the gloom Americans feel as the current downturn. The slump is the longest, if not the deepest, since the Great Depression. Traumatized by layoffs that have cost million of jobs during the slump, U.S. consumers have fallen into their deepest funk in years.

While some economists have described the current slump as a near depression, that phrase overstates the case if it is taken as a comparison with the period 1929-33, when the U.S. economy contracted by nearly a third. The D word becomes more valid, especially with a small d, when it is used to compare the growth rate of the 1930s, which averaged 0.5% a year, with the expected sluggishness of the next decade, which some economists predict will see an average growth rate of 2%.

"I'm worried if my kids can earn a decent living and buy a house," says Tony Lentini, vice president of Mitchell Energy in Houston. "I wonder if this will be the first generation that didn't do better than their parents. There's a genuine feeling that the country has gotten way off track, and neither political party has any answers. Americans don't see any solutions."

The deeper tremors emanate from the kind of change that occurs only once every few decades. America is going through a historic transition from a heedless borrow-and-spend society to one that stresses savings and investment. When this recession is over, America will not simply go back to business as usual.

The underlying change in the way American consumers and business leaders think about saving and spending will make the recovery one of the slowest in history and the next decade one of lowered expectations. Many economists agree that the U.S. will face at least several years of very modest growth as consumers and companies work off the vast debt they assumed in the last decade. ...

By the way, the date of this article? January 13, 1992! ;-)

The picture above is an excerpt from a summary of the publication posted on a financial blog. These same phrases continue to be used to describe the current economic environment, despite the stock market's meteoric rise over the past seven years.

Click here to read the summary: http://mjperry.blogspot.com/2009/01/time-magazine-cover-story-why-were-so.html

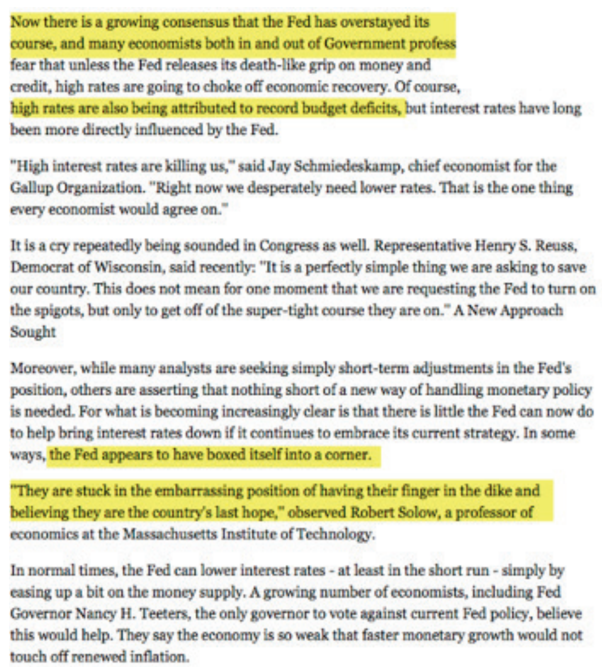
Click here to read the actual Time article (subscription required): http://content.time.com/time/magazine/article/0,9171,974645,00.html

THE FED'S INEFFECTIVENESS

Investors don't have to go too far to find criticism of Fed policy these days, and market pundits regularly attack the Fed by saying:

> "The Fed has really put itself in a bad spot."
> "Their policies are ineffective and created massive deficits."
> "Interest rate policy is killing us."
> "A new strategy is long overdue."

Although these comments may sound familiar, they were actually taken from the excerpt below:



Now there is a growing consensus that the Fed has overstayed its course, and many economists both in and out of Government profess fear that unless the Fed releases its death-like grip on money and credit, high rates are going to choke off economic recovery. Of course, high rates are also being attributed to record budget deficits, but interest rates have long been more directly influenced by the Fed.

"High interest rates are killing us," said Jay Schmiedeskamp, chief economist for the Gallup Organization. "Right now we desperately need lower rates. That is the one thing every economist would agree on."

It is a cry repeatedly being sounded in Congress as well. Representative Henry S. Reuss, Democrat of Wisconsin, said recently: "It is a perfectly simple thing we are asking to save our country. This does not mean for one moment that we are requesting the Fed to turn on the spigots, but only to get off of the super-tight course they are on." A New Approach Sought

Moreover, while many analysts are seeking simply short-term adjustments in the Fed's position, others are asserting that nothing short of a new way of handling monetary policy is needed. For what is becoming increasingly clear is that there is little the Fed can now do to help bring interest rates down if it continues to embrace its current strategy. In some ways, the Fed appears to have boxed itself into a corner.

"They are stuck in the embarrassing position of having their finger in the dike and believing they are the country's last hope," observed Robert Solow, a professor of economics at the Massachusetts Institute of Technology.

In normal times, the Fed can lower interest rates - at least in the short run - simply by easing up a bit on the money supply. A growing number of economists, including Fed Governor Nancy H. Teeters, the only governor to vote against current Fed policy, believe this would help. They say the economy is so weak that faster monetary growth would not touch off renewed inflation.

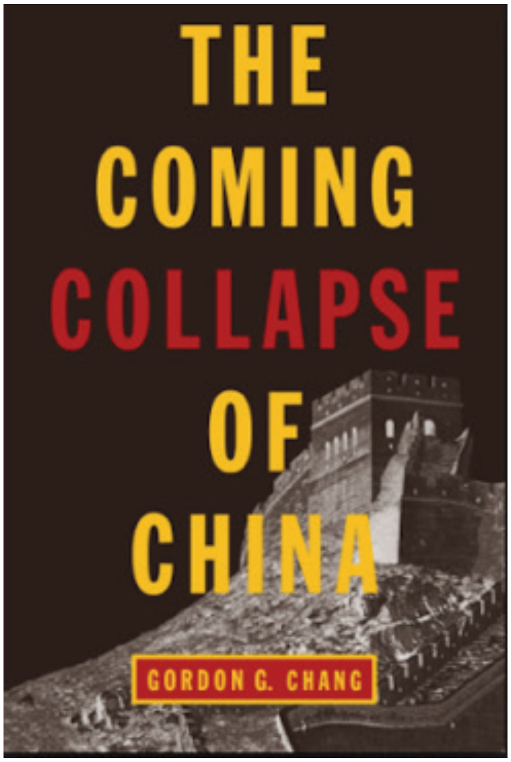
This article was written in the New York Times back in 1982, right before the beginning of an 18-year bull market. Since the day the Fed was founded back in 1913, critics have slammed their policy decisions, and the accusations rarely change all that much over time.

Click here to read the full article: http://www.nytimes.com/1982/04/01/business/fed-criticism-on-rates.html?pagewanted=all

CHINA IS A HOUSE OF CARDS

One of the biggest sources of market volatility over the past year has involved China. Stories of "bridges to nowhere" and "empty cities" being built by highly corrupt leaders using massive amounts of debt that could never possibly be paid back have made page one on an almost weekly basis in most mainstream media publications.

This book cover pretty much sums up the current view of the world's second largest economy.



In the last paragraph on the fly-page, the author even sets up his readers for what's to come with this powerful quote: "The People's Republic has five years, perhaps ten, before it falls."

Some may assume that this book hit the shelves back in August after China caused a tremendous amount of volatility in global financial markets, or perhaps right after 60 Minutes aired its segment in 2013 that accused China of being nothing more than a "house of cards."

However, this book was printed back in 2001, and an academic paper with the same title written by a different author was also published back in 1995. Apparently, China has been on the verge of collapse for more than 20 years.

NOTE*: I will give the author an "A" for persistence. After admitting that he was wrong when China did not collapse in 2011, he published an article stating that he was only off by one year, and we all could bet on China collapsing in 2012 instead.*

Click here to read his revised prediction for 2012: http://foreignpolicy.com/2011/12/29/the-coming-collapse-of-china-2012-edition/

IMPLICATIONS FOR INVESTORS

Many of the current concerns are the same ones that plagued investors ten and twenty years ago. They come and go with the state of the economy, stock market, and investor sentiment.

For example, as the economy continues to get stronger during the cycle, the bears slowly begin to disappear since it becomes harder to find things to complain about. By the time we reach the top of the economic cycle, the bears are forced into hibernation, and there's nothing stopping one of the most dangerous risks from attacking investors.

This risk is euphoria, or a situation where investors believe that nothing can go wrong. Here, the bears and their stories get replaced with ones that speak of impenetrable economic growth fueled by new and exciting business ventures that don't have a shot of ever making money.

Stocks soar to meteoric valuations as greed replaces discipline until the party abruptly ends. Eventually, the bears wake up and repeat the cycle. Hence, rather than fear these stories right now, think of them as an immune system that is preventing euphoria and greed from attacking.

The bottom line is that once everything in the economy is strong and not even the most bearish pundit can find a problem, that will be the time to sell. It's safe to say that the bears are still rampant in this current market, so now's not the time to panic.

NOTE*: The source for all pictures and the inspiration for these examples, along with other notable investor concerns, are detailed here: http://fat-pitch.blogspot.com/2016/03/current-investor-concerns.html*

Sincerely,

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