



First Quarter Letter
April 20th, 2017

Dear Clients and Friends,

The crash is coming. Did you hear me? ***THE CRASH IS COMING!***

Yes, I'm being sensationalist. I'm also making an obviously obtuse observation and *not* a prediction. The next economic downturn is always a day closer. A well-trained investor doesn't blink an eye at this kind of headline and treats it the same way as a newsflash proclaiming ***THE SUN WILL RISE TOMORROW!***

It's only natural to start thinking about this kind of thing after a fantastic 8-year run for stocks, a decades-long run for bonds, and elevated valuations relative to historical averages. Things have been very good so it's important to remember it's not always sunshine and puppies in the investing world. So how does one make sure they're a well-trained investor, unmoved by headlines and, more importantly, accepting of an inevitable decline in their portfolio? Two ways: experience and visualization.

If you already have the experience of going through at least one bear market (a stock market decline of at least 20%), then all I need to do is remind you how everything worked out just fine, as it tends to do, no matter the severity of the downturn. You may not have held steady *yourself* but you can use that experience as a reminder for next time. Just remember the "bad" (a bear market) always precedes the "better than it was before" (the recovery). Capitalism has a knack for fostering this cycle and patience has a way of numbing the psychological effects of both phases.

If you haven't been through a bear market as an investor, then it might be wise to have some fun with visualization. **Parental Advisory: a grisly/grizzly scene is about to unfold.**

Picture your portfolio. Your well-stocked, precious investment accounts you worked so hard to build, which represent the cumulative discipline you displayed by saving a portion of each dollar you earned after thousands of hours of labor. Very few people chose to be responsible like you, and you love this thing, if loving an inanimate basket of securities is possible.

Still with me? Your treasured portfolio is now in front of you, except it has transformed and now it looks a bit like a crash test dummy. Faceless, but still a humanlike form, your portfolio is also covered in honey. Inexplicably, an aggressor enters the room with razor sharp teeth and claws¹. Yes, it's a hungry bear. Yes, he's about to brutalize your good friend you value so dearly. The horror!

To try to predict what it's like to go through a bear market, you have to imagine what it feels like to see this attack unfold. Right through the torso, your "portfolio" has now been severed by a few quick bear chomps. Gone in an instant. You feel helpless. There's a lump in your throat. Sleeping will surely be difficult, knowing what just occurred.

¹This isn't the first time I've referenced a dangerous encounter in a quarterly letter. If you recall, I compared negative interest rates to a person walking in a room with a bazooka and nobody saying anything in the [first quarter of 2015](#). I probably watch too many movies. Sorry.



“It’s not fair!” you’ll say. “Investing isn’t fair,” I’ll reply, but it favors the well-trained. Thankfully your precious portfolio / crash test dummy has a magical feature: a fully regenerating body. If you just sit tight, it grows back! Your BFF will be back and better than ever before you know it.

After 2008’s epic meltdown, most portfolios fully recovered within two years. This process is a feature of investing, not a bug, and your real life investing story does not have to have a tragic ending because it’s within your power to control the narrative. It’s harnessing the power of compound interest, of letting other people panic, of letting markets shed what needs to be shed and accepting the process of investing is long-term, just like your goals. No bear market attack is fatal for the well-trained investor.

What was the ultimate point of this pretty ridiculous visualization? To get you to picture what’s inevitably coming: a big, stinking punch in the financial gut. I don’t know when it will happen and I’m not saying it’s coming tomorrow, or that I’m “up nights” worried about it. That said, at some point you will be reviewing your portfolio and you *will* see a hefty chunk severed from your accounts in what feels like an instant. I want you to picture it coming because expecting it will make brushing it off much easier. Just remember that whole body regeneration part and you’ll be just fine.

Questions, comments, or concerns? Disturbed by picturing a crash test dummy covered in honey? It wasn’t my proudest writing moment, to be certain. Either way, please let me know if this letter reminds you of how you reacted to a market drop, or if you want to chat more about bear markets in general.

As always, thank you for your trust.

Sincerely,

Tyler