Many clients and prospects who meet with us ask why we're so pessimistic. There are a couple of reasons. First, although we don't set out trying to be pessimistic, we report economic numbers and security valuations the way we see them. Bonds are giving poor yields, and stocks are at nosebleed valuations on any reasonable metric -- Price/Sales, Shiller PE, etc... Consumer debt is high, as the middle class tries to maintain it standard of living on stagnating wages by borrowing. Economic growth since the last recession has been tepid. There's no way to sugar-coat that, so we don't try. We owe our clients our honest opinions. **The other answer has to do with managing investors' behavior.**•We have a lot of collective experience in the financial services business, and we've seen investors make a lot of mistakes. And, yes, we've made a few ourselves, because we're not perfect. Undoubtedly, we'll make more. But our experience tells us that investors sell at bottoms. Everyone in our business knows this is a classic problem. Morningstar investor returns data often show that there is a 2 percentage point gap between mutual fund returns and the returns fund investors capture, though the last report Morningstar issued on this subject was admittedly more hopeful. **If we are pessimistic it's because we are trying to let investors know the stock market usually provides a bumpy ride, and tests your patience.** It delivers gut-wrenching declines at times, and we prefer to see investors not sell during those declines. In fact, we want to prepare our clients so well for declines that they have a bias towards buying stocks when markets swoon. **All advisers want what we want; we are not unique in wanting to see our clients not sell at the bottom.** The question, then, is how to combat the inherent urge to sell at the bottom. One possible tactic is to inculcate a buy-and-hold mentality in investors, and that's a reasonable approach. But, although it doesn't have to entail this, that approach often glosses over how painful declines can be, or just counsels investors to fight through them. That's likely what investors should do, but telling them to grit their teeth may not be the best strategy to get them to do that. The buy-and-hold message emphasizes that investors usually come out better on the other side of a big market decline at the expense of focusing investors' attention on how they might feel during the decline when they are likely to do the most damage to themselves. We'd rather focus investors' attention on how they might feel during the depths of a decline, and say to them,

> "*The last two market declines have consisted in 50% drawdowns, so forget about the market's long-term 18% standard deviation. You will be inclined to behave badly when you see your portfolio value declining, if you don't think hard about that moment now when you're more calm. You will want to sell everything to stop the losses instead of buying at cheap prices. And that will lock in your losses and potentially cause you to miss the eventual upswing. You will likely do yourself permanent damage. You will focus on how much your account has declined instead of focusing on how cheap stocks might be at that moment, and if you get too much stock exposure now you will not be inclined to buy at that moment. You will want to fire us as advisers, and you will never want to invest in stocks again. Or you will find an unrealistic and/or unscrupulous adviser who will tell you they can deliver all the market upside with none of the downside. Try to remember how you felt and behaved in 2008-9, and then consider how much stock exposure you really want to have. We will do our best to manage your downside, but much of your success depends on your choosing an appropriate amount of stock exposure to begin with. That amount is usually less than you think it is, especially after a 9-year bull market."*

We think saying these things, and working hard to assess a new client's risk tolerance, are more effective than emphasizing coming out on the other side of a bear market. **Coming out on the other side isn't the problem; the decline is the problem.** Investors can't see their way to coming out on the other end in the middle of a bear market, and encouraging them to do that at that moment isn't helpful. We'd rather address bad behavior at a moment when investors -- especially retirees, who are most vulnerable to fluctuating account -- are in a better psychological state to listen. We encourage investors to access the fear they've felt during past declines, before the next one ensues, and we never shame them into owning more stocks than they can handle. We think a lot of advisers subtly shame investors into owning more stocks because of how stocks have performed over the last century or so relative to bonds. Much of these gains owe to a price multiple expansion that was likely a one-time event during the 1908s and 1990s, as Rob Arnott and Peter Berstein have argued. And there are long periods when stocks have delivered poor returns. **No adviser knows exactly when bottoms and tops occur, but an adviser with experience can often judge the psychological temperature of clients well.** An experienced adviser can often surmise how clients will react under different market conditions better than clients themselves. Clients are notoriously poor judges of how they will behave under adverse market conditions. They tend to block out how they felt in 2008, for example. And they are poor judges of how much stock exposure they can handle. Clients will have to assess for themselves which approach and which kind of adviser will help them withstand market volatility, and help them buy -- or at least not sell -- into steep declines. The buy-and-hold approach, after all, is really a buy-and-rebalance approach, and investors adhering to it must rebalance in down market by purchasing stocks. We are grateful to the clients who have entrusted us with the management of their capital, and we look forward to meeting new ones who seek an alternative approach. Click here to schedule an appointment with us if you are interested in hearing about our approach to asset management and financial planning.