Ferguson | Johnson Wealth Management

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The Burden of the News

"Why should things be easy to understand?"

-Thomas Pynchon

Like me, perhaps you have been trying to figure out what is going on in the world. Lately, I have been having issues understanding a number of things. Things like the current political climate, the world's military conflicts, liberals and conservatives, the affordable and unaffordable health care system, or where our education system has been and where it is headed!

A few days ago, the U.S. launched missiles at a Syrian airbase. I woke earlier than usual to see where the futures for stock markets were headed. Initially, I had expected to see these indicators deep in the red. Instead, the S&P 500 futures were down a mere 0.1%[1]. Bombs and military intervention, it seems, are old-hat.

Had we been this blasé in the past?

If we go to war, or should I say, if we continue to expand our military involvement, how will this affect our economy and the stock markets? After all, as advisors in the business of wealth management, it's hard not to immediately think about the economic implications.

My thoughts turned to the stock market's reaction to the Korean War, a surprise event that started less than five years after WWII. It began in June 1950 and lasted 37 months to July 1953, when an armistice was signed. In the three-weeks following the start of the event, the Dow Industrials fell 12%[2]. It certainly wasn't a pleasant few weeks, but were markets sunk? Not at all! The Dow closed up 17.4% for the year and up 14.4% for 1951[3]. Investors looked beyond the conflict that took over 33,000 U.S. soldier's lives[4] and saw the effect of the war on the economy, industry, and consumers.

My point, today, is that there's not a lot that you or I can control that goes on in the world. We can pine and angst over that day-to-day happenings in the news, but it does not help to inform our investment strategy. We have shown, time and time again, that emotional reactions to national and global events do not make for responsible investing. Discipline and long-term perspective rule the roost.

Investment Policy Guideline Changes

After careful consideration and debate amongst our investment team, we have decided to remove the following language that appears in our Investment Policy Statements: "All debt shall have an investment grade rating." The unintended consequence of this language results in an unnecessary limitation on the funds that can be employed in a portfolio. For example, a fund that holds 1,000 debt securities could have one security carrying a BB rating (the threshold to be considered 'investment grade') and thus be disqualified from investment consideration. This is not, in any way, to suggest that we intend to invest in risky, high-yield debt in our clients' portfolios. This simply will afford us the latitude to utilize efficient and cost-effective investments in portfolios going forward.

If you have any concerns regarding this adjustment or if you would like to get further insight into our rationale behind this decision, feel free to give us a call to discuss.

We look forward to a lovely spring and the newest arrival in May to the Johnson Family.

John, Derek, Jon, & Stacie

[1] "Stocks Off Lows, Oil Rallies After U.S. Missile Strike on Syria", Fox Business, April 7, 2017.

[2] Source: Yahoo Finance, as of 6/15/1950.

[3] Source: Morningstar, as of 12/31/1951.

[3] Source: United States Department of Veteran Affairs, as of 9/30/2016.

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