DIVERSIFIED ASSET MANAGEMENT INC.

Back to the Investment Basics
Part 1: Remembering Summers Past

There were so many big events competing for our attention this summer … said nearly every investor, almost every summer, ever.

We're not making light of this summer's uncertainties. Inflation is real, and needs to be managed; we also can't rule out the possibility we'll still see stagflation and/or a recession (although neither has happened yet). Heightened levels of market volatility across stock and bond markets alike may have left you once again wondering whether this time is different. Wider worries prey on our minds as well, such as the war in Ukraine; totalitarian aggression in other hot spots around the world; ongoing discord closer to home; and oh yes, climate change.

But it's also important to remember, we're inherently biased to pay more attention to recent alarms than long-ago news. In the right context, this form of recency bias makes perfect sense. As we go about our lives, it's often best to prioritize our most immediate concerns—or else. No wonder we've gotten so good at it.

However, as an investor, if you overemphasize the news that looms the largest, you're far more likely to damage your investments than do them any favors. You'll end up chasing hot trends, only to watch them combust or fizzle away. Or you'll jump out during the downturns, without knowing when to jump back in.

Yesterday's News
How do we defend against recency bias? It can help to place current events in historical context. Do you remember what investors were worrying about a year, several years, or several decades ago? If you experienced some or all of these events first-hand, you might recall how you felt at the time, before we had today's hindsight to inform our next steps:

- **2021:** The Taliban takes control in Afghanistan, while a "ragtag army" of online traders led by Roaring Kitty storms Wall Street.
- **2020:** COVID-19 shuts down economies worldwide. Civil unrest rides high across a gamut of socioeconomic concerns, and a divisive U.S. presidential election looms large.
- **2018:** Two U.S. government shutdowns occur—in January and again at year-end, with the latter lasting more than a month.
- **2017:** The year-end Tax Cuts and Jobs Act (TCJA) upends U.S. tax codes.
- **2016:** The Brexit referendum and U.S. presidential election deliver surprising outcomes.
- **2015:** A long-simmering Greek debt crisis erupts.
- **2013:** A 16-day U.S. government shut-down occurs in the fall.
- **2012:** The U.S. narrowly averts plummeting over a fiscal cliff.

- **2011:** For the first time, the U.S. federal government credit rating is downgraded by one of the major rating agencies from AAA to AA+, and the Occupy Wallstreet movement is born.
- **2008:** Wall Street broker and former NASDAQ chair Bernie Madoff is arrested for fraud.
- **2007:** The Great Recession and global financial crisis begins.
- **2001:** The 9/11 terrorist attacks send global markets reeling. An accounting scandal at Enron culminates in the energy giant's bankruptcy.
- **1999:** The dot-com bubble bursts; the Y2K bug spurs massive, worldwide computer reprogramming.
- **1990:** Iraq invades Kuwait.
- **1980:** U.S. inflation peaks at 14.8%; Americans are marching in the streets over the price of groceries. Also, the U.S. Savings and Loan crisis begins, ultimately costing taxpayers an estimated $124 billion.
- **1973:** An OPEC oil embargo "fueled bedlam in America."

Investment Mainstays
These are just a few examples. They don't include the market's endless stream of lesser alarms that are easy to dismiss in hindsight, but often generated as much real-time storm and fury as the more memorable events.

The point is, there's always something going on. And even as global markets persist, we forget or rewrite our memories, until they're no longer available to inform our current resolve.

In the face of today's challenges and tomorrow's unknowns, we advise looking past recent trends, and focusing instead on a handful of investment basics that have stood the test of time. They may seem unremarkable compared to the breaking news. But when has "buy low, sell high," or "a penny saved is a penny earned" become a bad idea once all the excitement is over?

Next up, we'll review some of these investment basics, and how they apply to you and your personal wealth.