Market Insights: New Developments, What to Consider, and Top Questions Answered

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TRANSCRIPT

SPEAKERS:

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Jim Armstrong: Hello and welcome to Market Insights. Thanks for joining us today. I'm Jim Armstrong with Fidelity. For most people, achieving success as an investor means reaching their financial goals, but those could be different for each person. It could be buying your first home—maybe buying your second home on a lake. Maybe it's paying for your kids to go to college or setting yourself up for a comfortable retirement or something else entirely. The question, though, is: what separates those investors from the rest? And that's what we'll be attempting to answer today—discussing the six habits of successful investors and how all of us can potentially put those ideas to work for ourselves. Plus, as always, we'll be discussing the latest market news and what that might mean for each of us as investors as well. For today's conversation, Jurrien Timmer has joined us to talk about his latest work analyzing our economy's big picture. And Leanna Devinney is also here to talk about how she and her team of Fidelity representatives help people just like you and me create and update our financial plans. Leanna, Jurrien, thank for being here.

Leanna Devinney: Thank you for having us. Excited as always. Almost May. Kind of.

JIM: Kind of.

Jurrien Timmer: Not going to be the same after this week, Leanna.

LEANNA: I know. I'll miss you all.

JIM: You're feeling like it's almost May because your Fidelity work is about to shift to mom work, which we'll talk more about in one second if you haven't guessed already. Okay, let's get started, Jurrien. It's Tuesday, April 6. It'd be great if you could sort of start us off with a high-level look at the economy's ongoing recovery and, I think—maybe touch on what that's meant for us as investors and what it could mean in the near term.

JURRIEN: Yeah, you know, it's been really an amazing ride—of course, not only for all of us surviving through this pandemic, but just when you look at the economic numbers, the data are just off the charts right now. You know, we've gone from kind of a depression a year ago, and some of the data—at least on the goods-producing side of the economy—are just absolutely booming. And we kind of see this here—you know, you can see in this chart how the economy suffered basically a heart attack a year ago. You know, the top panel there shows weekly jobless claims. And they had been flat lining at 250,000 a week, which is a fairly normal thing, because, you know, people are in and out of jobs and are moving or what have you. Then we got the heart attack. You know, three—six million people filing first-time claims. And then, very quickly, it started to recover. It's still elevated—700,000. But we saw that, for instance, last Friday, we had a good unemployment report—900,000 new jobs. So the economy is coming back. Over 100 million Americans have been vaccinated now. It's a—you know, really incredible news. 3, 4 million per day, I think, is the latest run rate. So things are coming back, and you see this in the bottom panel as well. The orange line is the New York Feds weekly economic index. And that, again, has more than round tripped as have earnings expectations. So, you know, with the vaccines and economy reopening—it's spring—you know, you can imagine why investors are feeling pretty confident right now, and the markets, as we see, are making new all-time highs as we speak.

JIM: And a quick follow up to build on that, actually, Jurrien—we know Leanna is going to talk in a couple minutes about the habits of successful investors. And I know that over the past year or so on this webcast, you both have talked about the—you know, the potential virtues of a 60/40 portfolio. 60% stocks, 40% bonds. And I know we've all been sort of thinking about that, potentially, through the context of rising inflation as well. So what's your latest thinking there?

JURRIEN: Yeah. Well, as you know, my default answer when asked, you know, what should investors do? It's always: have a plan, stick with the plan, and rebalance. And so this is kind of part of the having a plan as well as the rebalancing and sticking with the plan. But, you know, it may not be 60/40. It may be 50/50 or 70/30. But it's, you know, a kind of—most of our portfolios that we are talking about with our clients are based on some sort of diversification mode a la the—kind of the 60/40 paradigm, if you will. So 60% or some part in stocks, some parts in bonds. And in old days, when the bond yields were much higher than today, the bond part would serve two functions. One was to protect yourself shocks in the stock market, and the other one is to provide some income. And yields are going up, and we'll talk about that a little bit later. So the income part is starting to come back, but, you know, at very low yields—1, 2%. Most of the reason to be in bonds is for that security, if you will.

But it's interesting because, you know, as the economy is coming back to life and people like myself are talking about or wondering about whether the inflation that is very likely coming over the near term—it's actually already happening—whether that will be a transitory thing or something more structural. You know, the Feds seem—and the Treasury Department—seem to be pretty clear that they expect it to be transitory, and a lot of that will just come from the base effect of the fact that the CPI was low a year ago; and now, as the economy reopens, those numbers kind of come back. But then they will roll off a year later. But that's a very long lead up to my answer to your question. The reason that's important is because if you look at this chart, this shows the correlation between stocks and bonds based on where inflation is. So the horizontal axis is the long-term inflation rate, and the vertical axis is the correlation between stock returns and bond returns. And you can see kind of three different regimes, if you will.

Way on the left is the Great Depression, 1930s deflation. We're not there. I think it's very unlikely we'll go there, so we can kind of, you know, dismiss that side of the chart for now. And then that spike you see going down to the bottom—that is the low inflation, or, you know, what I like to call the Goldilocks regime, where things are not too hot, not too cold. And during that regime, which we have been in the last couple decades, correlations are very negative. So, in other words, when stocks go up, bonds go down and when stocks go down, bonds go up. So either way, in a 60/40, you have some protection. But if inflation were to come back and stay—and, you know, and stay there like we go three, four, five percent inflation—and that's not a prediction at all. I don't think anybody knows whether we're going to go there. But if that were to happen for a prolonged period, the correlation, based on history, would likely flip positive, which means that you want to start tweaking the 40 of the 60. You don't necessarily want to sell the 40 side, but you may want to change what it looks like. Maybe less long-term bonds, more short-term bonds. Or maybe more cash or tips—inflation-protected securities. Even on the 60% side, you can tinker, right, by switching more to value stocks rather than growth stocks. So this is all theoretical right now, but it shows—the chart shows that there are clear regimes based on where inflation is and what that means for a 60/40 portfolio.

JIM: Great. That sets the table perfectly for us to turn to Leanna now and talk about some of these successful investor habits that I know that you and your team—I mean, you've been doing this for years and years. Folks on your team have as well. You've had the chance to sit across from collectively thousands of people, I would assume, right? Everybody in a different stage of their life with different goals. What sort of common characteristics or traits do you see in people who are goal achievers? People who get it done.

LEANNA: There are definitely a lot of recurring themes, and Jurrien set this up perfectly with his beliefs as well. Have a plan, stick with your plan. We're going to be talking about those healthy habits and themes out there. And I'd just like to share—this is everyday investors; folks like me and you. Those that have a 401k, 403b. This isn't the active day traders when we talk about the successful habits that are out there. So the first habit that I see all the time for success and confidence is those that have a plan. That's the foundation of your—the planning and the financial planning we can do. My motto is as simple as: if you don't have a plan for where you are going, you may end up somewhere else. So we don't want that to happen. And we can see on this slide just the confidence—those that have a plan—their retirement savings confidence level versus those that don't. A client that—I think I shared before, but always stuck with me—in 2008, shared with me that he made rash decisions. He ended up selling a lot of his 401k because he didn't have a plan. And he always felt if he had a plan, the outcome would have been different. So he learned from that experience—it really is incorporate planning, and also how he budgets and saves.

So my next habit that's one for successful investors on this next slide is making sure that we have a saving strategy. And so, no one likes to hear the B word: budget. This isn't to go pen and paper to go line by line. But what we can start doing is having those goals and following a rule of thumb to help that successful investing. This is the 50/15/5 rule. So you take a look at your income and say 50% should go to essential expenses, 15% would go to retirement savings, 5% short term savings, and then the rest would be other goals. So we focus a lot on the retirement savings. And just noting on this one—that's including employer match. If an employer gives 5% per se, that is really 10%. But following those two habits: first having a plan to document your goals and then having a plan around your budgeting and savings are really helpful foundational habits.

JIM: That's great. And I think, you know, it's probably useful to point out—I have heard you say this before, that—you know, a plan doesn't have to be some incredibly elaborate thing, right? It can be relatively informal. I mean, am I saying that right? How would you describe a plan to someone?

LEANNA: Absolutely, it is not—it does not have to be many pages or robust. It starts with what your goals are. And then a lot of times, we go through an analysis to help reach those goals. But, again, having that plan—I know it's silly, but if we don't have a plan for where we're going, we may end up somewhere else.

JIM: No, silly, I don't think at all; it makes perfect sense. Okay, next habits, please.

LEANNA: Yeah. So, third habit would be diversification. So simply don't put all your eggs in one basket. This helps control and manage risk. I always have to say: diversification—it doesn't guarantee gains or prevent all losses; but, again, it helps us manage risk. Jurrien was speaking within stocks to bonds, per se, there's different categories. So you don't just have all in one stock and all in different types of bonds. There's short-term bonds, there's long-term bonds. There's different credit qualities. On the stock side, there could be value stocks, there could be growth stocks, there's smaller company stocks. These are always the way to diversify, and, again, it helps mitigate that risk. And what I see—it allows us to stay invested. So that goes to the next habit that we can see on this slide. Again, have that plan. Make sure it's well diversified. But how do we stick with the plan? And investing can be very emotional. We look at the slide and all the events we have seen during very emotional times. It makes investing and seeing our wealth go up and down—it can be very scary. So those investors that have been able to stay disciplined and unemotional through those times have had success overall.

JURRIEN: It doesn't necessarily get any easier. You know, I've been doing this for a long time, and every time the market goes against me—which is fairly often—it still requires that detachment to just take a step back and trust the process, if the process is a good one.

LEANNA: I agree completely. We always hear: this time feels different. But if we can have that inner strength to have that plan and stick with the volatility, that's where we see the long-term success.

JIM: Right. Think about how we felt a year ago when we were—when that big orange bubble on the screen right there—Corona Virus—as the market was doing what it did. It was hard at that time to imagine it wasn't going to keep doing that. So it's—that emotional response that you just described is real for sure. A couple other—two more, I think, two more habits that you can share with us, please.

LEANNA: Two more habits. Successful investors will keep an eye on the fees that they're paying. So me and my team—we want—we talk about paying unnecessary fees. So you don't want to be paying high expense ratios or funds that have loads involved with them. You want to consider low-cost investments. Now, many people we work with—they certainly find value in paying a cost for a professional management to help research investments, diversify, rebalance, stay invested. There's certainly a value to that cost. But what we can control are fees such as high expense ratios for things that can eat into your performance year after year. So that's another good habit to have: understanding what your fees are.

Last habit would be the—after tax returns. So how we can make sure that for our non-retirement money—those that aren't in tax advantaged accounts like 401ks or 403bs—money we are investing in after tax—we want to make sure that we're looking at tax-sensitive investments. So accounts that can offer tax advantages certainly help that. I just listed some of them like 401ks or 403bs, but also where we hold our money, where we invest something called asset location. This can help us have a greater after-tax return and not paying more taxes on investments. Not paying more to Uncle Sam. So for the tax piece, we always suggest to partner with a financial professional as well as a tax planner, and they can help you sort that out. But those are my two other healthy habits that we can have for successful investors.

JIM: That's great. Thank you again for those. Jurrien, before we end, one final question for you. Just sort of to piggyback on what Leanna was just mentioning—as well as sort of an echo of what you were talking about a couple minutes ago. Lot of folks thinking about—or concerned about—interest rates and the role they play in our investments. Certainly and obviously, it's a big concern for folks who are nearing retirement or thinking about fixed income investments. What's your latest thinking here?

JURRIEN: Yes. You know, so, as I said earlier, you know, this is the question that my colleagues and I are really discussing most. So we know the economy is getting a lot stronger, and even though there's still a lot of people unemployed, those numbers are improving rapidly and probably will continue to do so. So there's no question that the economy's coming back and it's strong. It's producing some inflation that will at least be temporary. But it—then it becomes a question of, okay, what—like, we can see what the world could look like for the next six to 12 months, but what about longer than that? And this is where having long term historical perspective, I think, is helpful. So, for instance, this is a chart of the 30-year treasury bond going back to 1978. That's a long time, and, you know, back 30 years ago—no, actually 40 years ago—yields were 15%, you know. A year ago, the long bond was at .7%. The 10 year was at .5%. The longs bond has now gone from .7% to 2.5%. And, you know, I've drawn kind of a simple trend line through that chart, and you can see that maybe it'll go higher—maybe to 3% or what have you, and that would all be considered a normal cycle within this very long kind of super cycle of falling rates. So the thing we're really contemplating is: is that long term trend intact? So, in other words: will the zigs and zags of those lines be within that downward sloping trend, or will it start to kind of bottom out and start to rise? And, of course, if that were to happen, it would very likely be because inflation is becoming a structural issue. And, again, I don't think anybody has any idea. We can see the supply chain disruption because of COVID, because of kind of, you know, US-China trade tensions. So we can see the inflation, but at the same time, we have demographics very deflationary, we have high debt levels which are deflationary. We have obviously a lot of technical innovation, which is deflationary. So I by no means I'm going to, you know, sound the bell that inflation is coming back, but this is why we're having this discussion. And, again, it affects the 60 side because some stocks because some stocks are better inflation hedges than others, so small caps in value tend to be better than large cap in growth in that scenario. And on the 40 side, maybe you don't—maybe you shorten the duration of your bonds and buy more inflation-protected bonds or more corporate bands or floating rate notes or what have you. So it's all kind of under the hood of the 60/40 that we're having these considerations.

JIM: Yeah. It's so good to hear your latest thinking on that, and also good to know that you're keeping your eye on it so we can continue to ask you about it every single week, which I think I plan to do. So thank you, Leanna and Jurrien, for making time to be with us today. And, of course, thank you for everybody watching as well. Reminder that if you're watching and you need help with your financial planning or just have questions about what we offer, you can visit Fidelity's website or download the Fidelity app on a mobile device. Those are great ways to explore our planning solutions and get answers to your questions and learn more about the topics that we covered here today—and cover every week, actually. Again, huge thanks to Fidelity's Leanna Devinney and Jurrien Timmer. Thanks for joining us. Next week—we mentioned that Leanna—you won't be with us because you are starting a much more important and probably a lot more intense job than the one you have now, and that is a brand-new mom.

LEANNA: Yes. I'm excited. I'll be sure to send a picture. We don't know boy or girl, but we can—I can send in a photo. They can make their debut on the webcast.

JIM: Yes. We're anxious to see that. The three of you—you, your husband, and baby TBD. It doesn't have to be that they take the minute the child comes out when you're not feeling your best—I see those pictures all the time. I'm not allowed to show those of my wife—the five-minute-old pictures. We can wait a couple minutes. But we would love to share it on the webcast, absolutely.

LEANNA: Thank you.

JIM: And next week, we're going to be talking, by the way, about three key questions that we can all ask ourselves to help make sure we're choosing the right investments for ourselves. So we'll see you then. Leanna, we hope to see you at the end of the summer when you're back and rested, hopefully, maybe.

LEANNA: Yes, of course. Thank you. I will be back.

JURRIEN: Good luck, Leanna.

JIM: Take care, everybody.