Do you have a PLAN B?

By Matthew P. Havens, CFP, and Thomas P. Holland, CFP

"I am mostly in concentrated in cash because I think most asset prices have been pushed by central banks to very elevated levels. Central banks look at growth, at employment, at wages. They are too low. They don't have the instruments they need, but they feel obligated to do something; so they artificially lift asset prices. Because they hope that they will trigger what is called the wealth effect, but there is a massive gap right now between asset prices and fundamentals."

Mohamed El Erian on CNBC April 7, 2015 (Former Chair of Harvard's Endowment)

These are interesting times to be making financial decisions. Our business is helping our clients make good decisions about the larger scope of their financial plans and the details within them. Decisions like whether to pay down debt when times are good, how much to keep in cash and where, understanding general liabilities and how to address them, managing tax liability and how to invest in different market cycles. These are just some of the discussions we have with clients. We have a process to help our clients clarify objectives, identify roadblocks, choose appropriate resources and ultimately take action. Moreover, when it comes to achieving their goals, we like our clients to have more than one option - not just a Plan A, but a Plan B and sometimes even C and/or D.

While there are many things we could talk about, there are some interesting trends that are developing in the world in both the short and long term. Health care demand is growing and changing, the way people think about real estate is changing, and approaches to energy and water usage are changing. Asia may be slowly becoming the center of the financial world. It really is a fascinating environment.

But when it comes to making decisions about money today, central banks have sucked all of the oxygen out of the room. We know it looks like they lit a fire, but that is what fire does, it consumes oxygen and everything else. The Fed has gasoline, which burns hot and sometimes explodes, but it does not have good steady burning fuel that drives economic fundamentals. And, unfortunately, for all their academic credentials, central banks have no Plan B. Plan A has to work. Their solution to Plan A not working is just to do more Plan A – more gas. If their goal is to foster a healthy economy that can function on its own, it does not appear to be working. And this has a meaningful impact on every other trend – at least in the short term.

What we appear to have today are grossly distorted financial markets driven by unsustainable stimulus where, for example, the median stock is more richly valued than ever, including the tech bubble of 2000. However, for all the speculation that central banks have inspired, by many measurements we have a deteriorating economy. In the end, as Jim Grant of The Interest Rate Observer says, central banks can make things look better, but they can't make things actually better. They can, however, make things worse than they might otherwise have been. By believing in their ability to manage the emotions of the market they are playing a game that has never been won.

Actions have consequences. It is a fundamental lesson our parents try to teach us and we attempt to pass along to our children to help them avoid unnecessarily painful experiences. Sometimes you can get by doing less homework, getting less sleep, cramming for tests or making a snazzy presentation to mask the fact that you just did not put the work in. But ultimately we are governed generally by the rule of the farm: You reap what you sow.

Current central bank policies have sought to stimulate risk taking with the rational that if people feel better then things will actually get better. Economists have been predicting that we will achieve "escape velocity" for six years but this has yet to be seen. Still we engage in the same thinking and strategies that have not worked in the hope that we can bypass fundamental changes and rely on good feelings to bring about prosperity. The potential consequences are disastrous.

Now is a time to think differently and act defensively. It's ok if Plan A is to hope the stock market will deliver an 8 percent return for the next 10 years. The question we want to ask is: Do you have a Plan B? $

Matthew P. Havens, CFP, and Thomas P. Holland, CFP, are Partners and Wealth Advisors with Global Vision Advisors. They can be reached at (781) 740-8883, mhavens@globalvisionadvisors.com or tholland@globalvisionadvisors.com.